

SECTION 2
January 23, 2003

	Ricardian	H-O-S	Specific Factors
Specifications	2 countries 2 sectors 1 factor: L (2 x 2 x 1)	2 countries 2 sectors 2 factors: L, K (2 x 2 x 2)	1 country 2 sectors 3 factors: L, K-specific (1 x 2 x 3)
Endowment	-	different	-
Preferences	identical	identical	identical
Technology	different	identical	different
Opportunity cost (MRT)	constant	vary	vary
Factor mobility across sectors	mobile	mobile; mobile	mobile; immobile
Effects of an increase in labor	Production in both sectors increase with the same portions.	Production in L-intensive sector increases whereas that in K-intensive sector decreases.	-
Free Trade Factor prices	-	equalized	-
Welfare implication	2 x 2: better off	2 countries: better off abundant factor: better off scarce factor: worse off	L: ambiguous K in "export": better off K in "import": worse off

- H-O model in a box-diagram ("Angel" diagram)
See Section 1.1 in Chapter 24 in the Handbook of International Economics (Vol. 3) edited by Gene M. Grossman and Kenneth Rogoff.