

GLOBALISATION AND FACTOR RETURNS IN COMPETITIVE MARKETS

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Abstract

The standard competitive trade model, extended to include many goods and factors, is used to establish two results. First, integration of goods markets decreases on average international disparities in the real returns of internationally immobile factors, irrespective of whether there is international factor mobility or not. Second, integration of factor markets has the same effect, and this result holds in the presence of nontraded goods. We conclude that globalisation, a process of increasing freedom for international movements of goods and factors, will tend to reduce international disparities in the real returns to factors.

JEL-Classification: F11, F16

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