PREDICTING THE FACTOR CONTENT OF TRADE: THEORY AND EVIDENCE

Daniel M. Bernhofen

School of Economics and GEP
University of Nottingham

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Abstract

This paper examines the multi-cone specification of the factor proportion theory of international trade. I show that Helpman’s (1984, Economic Journal) bilateral restrictions on the factor of content of trade, which have found recent empirical support by Choi and Krishna (2004, Journal of Political Economy), need to be amended to account for multilateralism. I identify additional restrictions and show that these restrictions form the building block for a multi-lateral specification which extends Alan Deardorff’s (1979, Journal of International Economics) two-country, two-factor, multiple goods chain of comparative advantage prediction to multiple countries and factors. Applying Choi and Krishna’s data set to the multi-lateral specification, I find little empirical support for the prediction of the model.

“It is not possible through merely bilateral comparison to develop a…theory of efficient multilateral specialization”. (Lionel McKenzie, 1954, p. 180)

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2 Address for Correspondence: School of Economics and Leverhulme Centre for Research on Globalization and Economic Policy, University of Nottingham, University Park, Nottingham, NG7 2 RD, UK. Tel: 44 115 846 7055, Fax: 44 115 951 4159, email: daniel.bernhofen@nottingham.ac.uk.