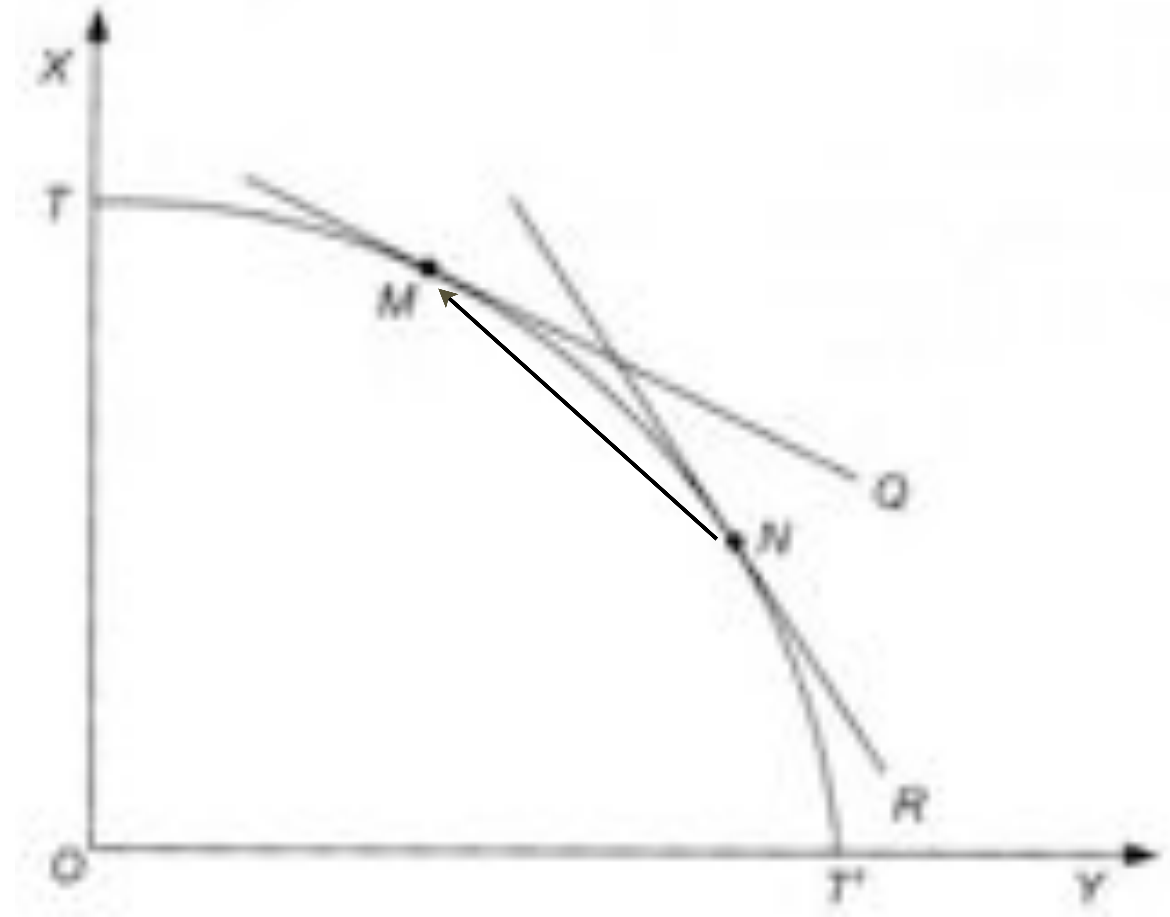
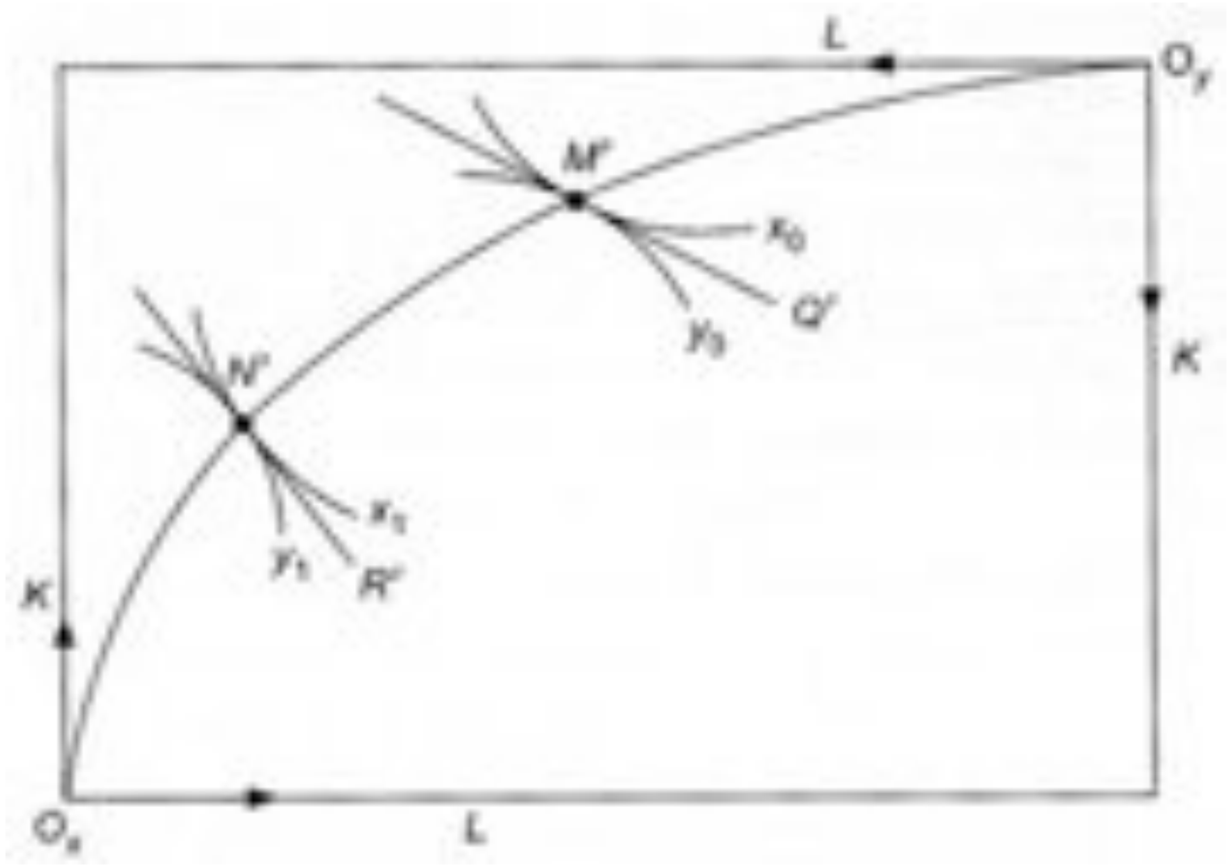
The Stolper-Samuelson Theorem

The real income of a factor **increases** (decreases) if the level of output of the good which uses that factor relatively intensively (less intensively) **increases**



If relative price of good Y decreases, then X production increases and Y production decreases (from N to M)



When P goes down, more of X is produced while Y production diminishes. In the two sectors both K/L and W/r ratios decrease

Because of a lower W/r, labour intensity increases and marginal productivity of labour decreases both in X and Y sector. Since MPP=W/P, real wage diminishes both in terms of X and Y

On the other side, marginal productivity of capital improves in X and Y industry. Therefore, since

$r/P = MPK$

real rent for capital services increases