

Factor Price Equalization (FPE) Implies Product Quality Equalization (PQE)

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**Abstract**

This paper examines the issue of the effect of international trade on quality choice by firms in a factor-endowment framework. Factor price equalization implies product quality equalization. In the North-South context it means that the South catches up with the North in product quality due to the competitive pressure from international trade, not because of technology adoption. Free trade may induce the North, the quality-leader in autarky, to improve its product quality - and yet the South would leapfrog and match it in the free trade equilibrium.