In figure above we depict free trade equilibrium in a Heckscher-Ohlin (H-O) model. The United States is assumed to be capital abundant, which skews its PPFus (in green) in the direction of steel production, the capital-intensive good. France is labor abundant, which skews its PPFfr (in red) in the direction of clothing production, the labor-intensive good. In free trade, each country faces the same price ratio.

The United States produces at point P. The tangent line at P represents the national income line for the U.S. economy. The equation for the income line is $Pc*Qc + Ps*Qs = NI$, where NI is national income in dollar terms. The slope of the income line is the free trade price ratio $(Pc/Pc)ft$. Consumption in the United States occurs where the aggregate indifference curve Ift, representing preferences, is tangent to the national income line at C. To reach the consumption point, the United States exports EXs and imports IMc.

France produces at point $P*$. The tangent line at $P*$ represents the national income line for the French economy. The slope of the income line is also the free trade price ratio $(Pc/Pc)ft$. Consumption in France occurs where the aggregate indifference curve $Ift*$, representing

preferences, is tangent to the national income line at $C*$. Note that since the United States and France are assumed to have the same aggregate *homothetic* preferences and since they face the same price ratio in free trade, consumption for both countries must lie along the same ray from the origin, $0C$. For France to reach its consumption point, it exports $EXc*$ and imports $IMs*$. In order for this to be a free trade equilibrium in a two-country model, U.S. exports of steel must equal French imports of steel ($EXs = IMs*$) and French exports of clothing must equal U.S. imports of clothing ($EXc* = IMc$). In other words, the *U.S. trade triangle* formed by EXs, IMc, and the U.S. national income line must be equivalent to *France's trade triangle* formed by $EXc*$, $IMs*$, and the French national income line.