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## **ACCEPTED MANUSCRIPT**

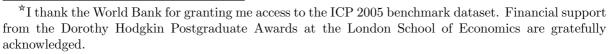
## The Balassa-Samuelson Relationship: A Micro-Analysis $\star$

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## Abstract

This paper shows that the specification of the Balassa-Samuelson relationship, i.e. the positive relationship between a country's per capita income and its national price level, at the level of the products used in constructing national price levels is different for 'services' and 'manufactures'. It further offers a new candidate explanation for the B-S relationship in manufactures, which appeals to mismeasured quality. This explanation yields a second, distinctive, testable prediction: controlling for per capita income, a non-monotonic relationship should exist between a country's income inequality and its national price level. I show that this second prediction is consistent with empirical evidence. *Keywords:* price level; income distribution; inequality; quality; Balassa-Samuelson. JEL classifications: C43; D31; E31; F31; L15.



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