Wilfred Ethier. *Modern International Economics.* New York: W. W. Norton and Company. 1983. xviii + 588 pp.

Its been long recognized that various economies of the world are interlinked through international trade. The experience of the past several years, however, has demonstrated that this economic interdependence is far greater than was previously realized. In this context, the importance of international economic theory as an area distinct from general economics hardly needs any mentioning. What gives international economic theory this distinction is international markets for some goods and effects of national sovereignty on the character of economic activity.

Wilfred Ethier's book, which incorporates recent developments in the field, is an excellent addition to textbooks on international economics for one- or two-semester undergraduate courses. The book mostly covers standard topics. A distinguishing feature of this book is its detailed analysis of the flexible exchange rates and a discussion of the various approaches used for their determination. Within each chapter, the author has extensively used facts, figures and major events to clarify the concepts in the light of the theoretical framework. The book also discusses, in a fair amount of detail, the existing international monetary system and the role of various international organizations.

The book consists of five parts. The first two parts examine issues that do not involve money. Parts Three and Four, on the other hand, deal with issues that do involve money. In both Part One and Part Three, first some of the basic theories are developed with the help of a few ideas and then these ideas are modified gradually in the light of the basic characteristics of the modern international economy. Parts Two and Four present applications of the basic theories developed in Parts One and Three, respectively. Part Five serves as an overview, incorporating both monetary and non-monetary issues.

The first two chapters explain the classical theory of international trade, of which the principle of comparative advantage, which determines patterns of trade, and the law of reciprocal demand, determining international terms of trade, are the basic block. Using the reciprocal demand curves, also known as offer curves, these chapters also discuss some areas of concern to the LDCs, e.g. fluctuations in export earnings, less favourable terms of trade, and secular decline in terms of trade (a phenomenon also referred to in the literature as the Singer-Prebisch thesis). Chapter 3 deals with the basis of Comparative Advantage. In it, the assumptions and propositions of Heckscher-Ohlin-Samuelson (H-O-S) framework are discussed. It also touches on the possible explanations of the Leontief Paradox and some recent extensions of the framework. Chapter 4 then takes up the application of Keynesian national income analysis to international trade and develops relationships between trade balance and equilibrium income. The issues of unemployment and inflation are

introduced as related to international trade. The chapter further examines the effects of national expenditure policies that directly influence aggregate demand and analyses the circumstances under which a policy of one country may conflict with or reinforce the policy of another country. Although the topics covered in this part of the book are standard topics of pure theory of international trade, the part is nevertheless useful as in it the author has used these topics to develop a more general framework.

Chapters 5, 6, and 7, which make up Part Two, deal with the applications and extensions of the pure theory of international trade. Tariff on imports and its various forms and other non-tariff barriers are discussed in Chapter 5 together with their possible affects on the terms of trade and the economy as a whole. Chapter 6 explores various motives – international, external, and internal – of imposing tariffs. It further looks at the actual tariff policy of the developed countries over time; as well as different international agreements establishing standards for commercial policies, e.g. the GATT. The H-O-S framework has been extended in Chapter 7 to explain factor movements between countries. The relationship between commodity trade and factor mobility within the H-O-S framework, i.e. whether they are complements or substitutes, has also been very briefly discussed. However, the author should have elaborated this more and explored this relationship in the Ricardian framework as well. Issues relating to different types of labour migration and capital movements, transfer problem and direct investment, and the role of multinational enterprises are also explored.

Chapters 8 and 9 of Part Three develop the international monetary theory by extending the theory of international trade. Chapter 8 discusses the Automatic Adjustment Process (AAP), which assumes payment imbalances as a symptom of international misallocation of money and single international monetary system, in which individual countries cannot pursue independent monetary policies, i.e. fixed exchange rates, one of the key ideas of the classical theory of international economics (the Principle of Comparative Advantage and Law of Reciprocal Demand being the other two). Channels of AAP, Hoarding/Dishoarding, Price-Specie flow Mechanism, Income, and International Capital Movements are also analysed. Chapter 9 focuses on determination of exchange rates and on what happens when they change. In this context, the author discusses the principle of Purchasing Power Parity (PPP), a relationship between exchange rates and price levels. To the extent that PPP does not hold changes in relative prices, income and interest rates (Principle of Interest Parity) are also discussed as other channels through which variations in exchange rates influence international adjustments. The chapter also very briefly discusses the over-shooting of exchange rates. The author probably could have examined various approaches, e.g. asset market and stock/flow, to explain the phenomenon. Lastly, the effectiveness of monetary and fiscal policy, under different circumstances, is also examined.

Part Four is perhaps the most interesting part of the book. It puts to work the two basic ideas of international monetary theory, namely automatic adjustment of the balance of payments and exchange rate adjustments. Chapter 10 looks at the foreign exchange market which is unified world-wide by arbitrage. In this the special role of the U.S. dollar is examined. The chapter also discusses forward markets of foreign exchange as distinct from spot markets. Two theories, namely Interest Arbitrage and Speculation, explaining the relationship between spot and forward rates are examined. Although implicit in the discussion, the role of Hedgers to explain the relationship between spot and forward rates should also have been explicitly discussed. Growth of Eurocurrency market, the problems related with its present form, and efficiency of foreign markets have also been examined. Chapter 11 examines the efforts to establish a workable international monetary system. In it, the working of Bretton Woods system, over different periods, role of U.S. dollar and international organizations, and associated problems are discussed. The causes of the weakening and final collapse of the system are explored in detail. Finally, IMF guidelines for international monetary reforms are discussed. Chapter 12, which alone makes up Part Five, elaborates on forms, levels and problems of economic integration.

Overall, the book which relies entirely on descriptions and illustrations, may be regarded as a good source-book for the beginners to understand and appreciate the current issues in international economics. Its mathematical appendix at the end can be extremely useful for serious students. The book is also a useful addition to the reading list of many teachers who want to introduce their students to issues and contributions to International Monetary Economics.

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