

Index

- Ability-to-pay principle, 88
Adverse development, degrees of, 24
Allocational efficiency, 111
Allocational incentives, 75–78
Aoki, M., 305, 326n18
Assignment problem, 175n5
Autonomy, 6, 9–12, 15
- Bagehot, Walter, 75, 99–100
Balance of payments
continuous equilibrium in, 184
crisis in, 31
domestic expenditures and, 161
financing of, 58
monetary approach to analysis of, 184
policies for, 12–13
Banking crisis, 26–28, 33, 35–41
Banking, international problems of, 40
Benefit principle, 88
Bhagwati, Jagdish, 121n46, 251
Bond covenants, 257
Bonds, international, 138–140, 142
Bonn economic summit, 63–64
Borrowing
external, 234–235, 247–253, 258–259,
262–265, 267 (*see also* Debt, external)
optimal strategy for, 230, 240–241,
248–249, 258, 272–274
Braga de Macedo, J., 326n13
Breakdown, as degree of adverse
development, 24, 48
Breton, A., 131
Bretton Woods Agreement, 7–8, 13,
29–30, 311
Bretton Woods system, breakdown of,
31–33
Bryant, R. C., 325n5, 326n11
Burke, Edmund, 98–99
- Cairncross, A. K., 134
Callaghan, James, 224
Capital markets
distinguished from money markets, 137
domestic, 148
indirect linkages between, 141–142
integration of, 140, 144, 147, 151–154
interdependence of, 148–151
Capital mobility, 155, 159, 168, 179. *See also*
Capital movements
domestic implications of, 147–148
and exchange-rate policy, 151
in Fleming's open-economy model,
182–184
interest sensitivity of, 181–182, 184, 189
and interest taxation, 150
restrictions on, 8, 196
short-term, 141
Capital movements, 138–142. *See also*
Capital mobility
and foreign-trade multipliers, 160–162
equilibrium models of, 183–190
interest sensitivity of, 173–174, 182
portfolio balance and, 174
short-term, 105
Carter, Jimmy (President), 62
Catastrophe, as degree of adverse
development, 24
Caves, R., 183
Central American Common Market, 134
Centralization, 15–18, 134–135
Choudry, N., 183
CIEC, 59
Closed economies, 80
and expenditure location, 79–81
monetary policy in, 180
repudiation risk in, 236
Cohen, D., 253, 256

- Colbert, J. B., 97, 98
Collapse. *See* Breakdown
Commodity markets, internationalization of, 78
Concessional aid, 270
Conference on International Economic Cooperation, 59
Consumption smoothing rule, 240
Cooper, C. A., 126
Cooperation, international
advantages of, 309–310
developing countries and, 48–49
erosion of, 47–49
oil crisis and, 59–60
Coordination of economic policy, 64–66, 155–178, 314–319
lack of, 173
and national objectives, 173
obstacles to, 321–323
Corporate havens, 107
Country factor, in international lending, 261
Cournot, August, 71, 292, 307, 312
Cournot-Nash noncooperative solution, 307, 312
Credit rationing, 235
Credit squeeze, with devaluation, 212
Crisis, as degree of adverse development, 24, 48
Currency speculation, 188
- Debt, external, 138
of government, 261
and macroeconomic policy, 259–261
taxation of, 251
Debt/GDP ratio, 265, 267–269
Debt maturity, 251–253, 272
Debtor utility, 237
instantaneous, 238
intertemporal, 238–239, 244
Debt policy, goal of, 237
Debt relief, 236, 247
Debt repudiation, 253–259
Debt rescheduling, 37–38
Debt-servicing ratio, 265
Debt servicing, taxation and, 244, 247, 270
Decentralization. *See* Centralization
Decentralized system, stabilization in, 305–306
Default, 36–38
Demand
aggregate, 73, 94, 206–213, 224
deficient, 94–95
Devaluation
accompanied by expansionary policies, 213
concerns about, 200, 214–215, 223
in developing countries, 200, 202
effects of, 200–226, 260
management of, 222, 224–226
in multiple-exchange-rate system, 200–202
standard analysis of, 200, 203, 213–224
and wage-price spiral, 218, 222
Developing countries
devaluation in (*see* Devaluation, effects of) and foreign-exchange system, 200
inflationary policies pursued by, 203
integration of, 134
laissez faire as borrowing strategy in, 261
as markets, 62
Díaz-Alejandro, C. F., 211, 250
Distance, economic, 78–80, 113–114
Distributional aims, 109, 111
Distributive effect, 210
Disturbance, as degree of adverse development, 24
Disturbances, 126, 128–130
exogenous, 293
of expenditure, 161, 167–172
monetary, 161, 167–179
pooling of, 83
Dornbusch, R., 186, 191, 230
Dual-exchange-rate system, 213
Dynamic adjustment model, 156–174
Dynamic budget constraint, 230–231
Dynamic economic structure, equation for, 301
Economies of scale, 75, 90, 96, 126–127, 132–133
Educational subsidies, and national market, 76
Enclaves, 117n6
Endogenous disturbances, interdependence among, 289
Energy policy, in macroeconomic policy, 66–67
Equilibrium change, 79–81, 160
Equity markets, integration in, 144, 149
Eurocurrency market, 35, 105, 107, 141–142
European Economic Community, 20, 44, 106, 124, 133, 313, 318–319

- Exchange rates. *See also* Fixed exchange rate; Floating exchange rate
alteration of, by monetary action, 87
and capital markets, 143
manipulation of, 28, 201–203
and national policies, 9
regime for, 12, 85, 197
Export-credit concessions, 12
Export goods, 203–204
Externalities, 75, 83, 89–90, 96, 126–127, 132
- Factor markets, 78
Factor mobility, 128–129, 132
Factor-price level, changes in, 194–196
Federal Reserve System, 39–41, 50n4, 67n5, 100
Fiscal policy
coordination of, 63, 66
effectiveness of, 73–74, 78, 81–85
and interest rates, 169
in mathematical models, 159, 294–297, 299
Fixed exchange rate, 7, 8, 16, 32, 105, 186, 189, 311
in Bretton Woods system, 32
in cooperative model, 311–312
in dynamic adjustment model, 157, 173
and external borrowing, 260
and monetary control, 260
in small-country models, 181–183, 185, 294–297
Flags of convenience, 9–10, 20
Fleming, M., 179–180, 184
Fleming open-economy model, 180–183, 185
fiscal policy in, 182
fixed vs. floating exchange rates in, 181–182
monetary policy in, 181–182
results of, 182–183, 186, 190
small-country assumptions of, 181
weaknesses of, 183–188
Floating exchange rate, 12, 17, 32–35, 65–66, 106, 189–190, 192, 195
in cooperative models, 307–311
and financial markets, 86–87
in Genberg-Kierzkowski model, 186–188
insulation provided by, 192–194
and interdependence, 301, 315
in open economy, 181–183
policy dilemmas resulting from, 34
- as shock absorber, 35
Flow equilibrium model, 186
Foreign borrowing. *See* Borrowing, external; Debt, external
Foreign exchange
crisis in, 33–34
rationing of, 204–205
Franklin National Bank, 38–40, 50n15, 61
Free markets, historical development toward, 73, 96–108
Friedman, Milton, 50n4
Functional federalism, 112, 132–133
- Galbraith, J. K., 23, 222
GATT. *See* General Agreement on Tariffs and Trade
Genberg, H., 186, 188
Genberg-Kierzkowski open-economy devaluation model, 186–189
General Agreement on Tariffs and Trade, 29–30, 111, 124, 319
Geographic effects, in expansionary fiscal policy, 73–74
Gold standard, 27–28
Government expenditure, in mathematical models, 157, 161, 294, 296
Government responsibility, in external borrowing, 250, 258, 262–265
- Hamada, K., 306–307, 311
Hanson, J., 186
Heckscher, Eli, 98
Heckscher-Ohlin-Samuelson theorem, 128
Heller, Walter, 59–60
Hirschman, Albert, 324n1
Hoover, Herbert (President), 26, 28–29
Human capital, 76
Hume, David, 184
- IEA. *See* International Energy Agency
IMF. *See* International Monetary Fund
Import liberalization, with devaluation, 212, 215–218, 225
Import-substituting investment, 200–201, 203
Income redistribution, 87–89, 91, 95, 104
Industrial locations, competition for, 106
Industrial policy, 323
Infinite-horizon problem, 239, 275–276
Information, exchange of, 315, 317–318
Integrated area, optimal size of, 124–125, 127–133

- Integration, 129–130, 291–292
distinctions within concept of, 124–126
institutional, 124
regional vs. global, 134
- Interdependence
causal, 289
economic, vs. psychological, 5
institutional, 5
vs. integration, 292–292
multidimensionality of, 290, 302
and national policies, 5–9, 13–21, 85, 294–299
national responses to, 9–13, 148–151, 314–319
parameters of, 156, 173–174
sensitivity, 19, 290–291
structural, 292–300
types of, 292–293
vulnerability, 325n3
- Interest-equalization tax, 148, 258, 315
- Interest rates
change in, 185
convergence of, 143–144
differentials in, 159
as marginal cost measure, 238
as policy target, 160
and solvency constraint, 133–134
- International Bank for Reconstruction and Development. *See* World Bank
- International economic system, 33, 51n21
- International Energy Agency, 44–45, 57
- International Monetary Fund, 30, 34, 46, 58, 199, 202
- Investment
direct, 141–142, 271
foreign equity, 270–271
- Japan, as oligop., 313
- Jensen, M., 256
- Johnson, H. G., 126
- Kaiser, Karl, 21n3
- Kemp, Murray, 227n5
- Kenen, P. B., 129–130, 185–186
open-economy model of, 185
- Keohane, R. O., 290
- Keynes, J. M., 54–55, 73, 84–85, 109, 173
- Kharas, H. J., 246
- Kierzkowski, H., 186, 188
- Kindleberger, C. P., 26, 121n44, 323
- Kissinger, Henry, 57
- Laissez faire, 97–99, 110
and foreign borrowing, 241, 249–251, 261–265
- Laursen-Metzler effect, 227n5
- Lender of last resort, 40–41, 61
- Lending cutoff, and optimal borrowing strategy, 248–249
- Lindahl, Erik, 88
- Linkages, international, 297–299
- Liquidity risks, short-run, 248–249
- Locomotive theory, 61–64, 68n9, 68n10
- Machlup, F., 201
- McKinnon, R. I., 114, 130, 184, 190
- Marginal propensity to import, 78, 113–114, 117n3, 156, 165, 168–169, 173–174, 189–190
- Markets
classification of. *See* Assignment problem
failure of, 75–76
fragmentation of, 5, 10
growth of, 96–108
internalization of, 71–72, 85–87
national, 72–73
reliance on, 72–78
secondary, 139–140
- Marshall, Alfred, 71–72, 209, 292
- Marshall-Lerner condition, 209
- Massel, B. V. E., 126
- Meckling, W., 256
- Metzler, L. A., 155, 227n5
- Mobility
and allocation of resources, 89
and domestic policies, 78, 94, 101–105, 107
and jurisdiction size, 128
policy responses to, 94–96, 108
and regulation, 89, 93, 128, 324
and world economy, 105–108
- Monetary policy
and balance-of-payments position, 147
capital-market integration and, 147
demand and, 169
and national markets, 74–75, 87
in noncooperative regime, 311–312
- Money illusion, 130, 194–196
- Money markets, 99, 137, 141. *See also* Capital markets
- Monnet, Jean, 125
- Monopoly, 93
- Multilateral Trade Negotiations, 47
- Mundell, R. A., 129–130, 155–156, 163,

- 179, 183, 185, 304, 326n18
Mutual dependence, 290–291
Myrdal, Gunnar, 22n11
- Nash, G. D., 236, 307, 312
Nash bargaining solution, with repudiation
 236
Nation-states, as ideal type, 15–16
New Economic Policy of 1971 (U.S.),
 22n12
Noncooperative solution, outcome of,
 313–314
Nontradeables, in optimal borrowing
 model, 241–243, 267–268
Nordhaus, William, 69n14
*n*th-country problem, 317
Nye, J. S., 290
- Oates, Wallace, 114, 120n41
OECD. *See* Organization for Economic
 Cooperation and Development
Ohlin, B., 117n3
Oil crisis
 current threat of, 31, 33, 41–46
 IEA sharing plan for, 45, 57
 inadequacy of preparation for, 43, 48
 military action in, 45–46
 of 1974, 41–42, 44, 53–55
 of 1979, 41–42, 45
 secondary impact on economies of,
 42–43
Oil import dependency, reduction of, 44
Oil price increase, effects of, 42, 53–56,
 66–67
Oligops, 313–314
OPEC. *See* Organization of Petroleum
 Exporting Countries
Openness, 291, 325n5, 325n7
Optimal borrowing models, 230–259,
 274–285
Optimal-tariff theory, 219
Organization for Economic Cooperation
 and Development, 46, 49, 57–60, 62,
 66, 140
Organization of Petroleum Exporting
 Countries, 36, 39–49, 53–54, 57, 59, 66
Overborrowing, 246, 250, 257
Overshooting, 65
Oxenstierna, Axel, 97–98
- Patinkin, D., 187
Payments, fundamental disequilibrium of,
 199, 206
- Phelps, E. S., 67n2
Policy-adjustment model, 162–174.
Policy-adjustment rule, 304
Policy coefficients, 326n13
Policy instruments, 156, 200, 212, 313–
 314
 and mobility, 94–95, 314
 and openness, 299, 314
 and higher interdependence, 323
 in mathematical models, 159–160, 162–
 163, 294–297
 search for, 314–315, 323
Policy interdependence, 293
Policy making, decentralized, 156, 319–
 324
Policy-objective interdependence, 292–293
Portfolio-equilibrium model. *See* Stock-
 equilibrium model
Protectionism, 46–47, 315, 317
Public expenditure, financing of, 88
Public goods, 125–127
 financing of, 88
 international, 313
optimal provision for, 89–90, 126, 130–
 132, 134
- Reciprocal dependence. *See* Mutual
 dependence
Recycling problem, 58
Regional economic jurisdictions, 123–126,
 133–135
Regulation
 history of, in U.S., 101–105
 of incorporated businesses, 102
 in late Middle Ages, 97–99
 and mobility, 93
 and national markets, 77–78
 as a public good, 92–93
 redistribution as motive for, 93
Repudiation risk, in external borrowing,
 235–237, 253–259, 267
Resource efficiency effect, 212–213
Reuber, G., 183
Revaluation, 199, 211–212
Rhomberg, R., 183
Rule-bound international regimes, 319–321
- Sachs, J., 230, 240, 253, 256, 328n33
Samuelson, P. A., 132
Schwartz, Anna, 50n4
Small-country assumptions, 181
Smith, Adam, 98, 110–111, 257
Social-welfare function, 230, 237, 241

- Solvency constraint, 231–234, 239–247, 267
defined, 232
and interest rates, 233–234
- Sovereignty, economic, 21n4. *See also* Autonomy
- Special Drawing Rights, 5, 32, 201, 312, 317, 320
- Speculative effect, in devaluation, 210
- Srinivasan, T. N., 251
- Stabilization, 126, 128–130, 132, 185–186, 191
under decentralized system, 111
and exchange-rate regimes, 185, 191
expenditure locus in, 78–79
fiscal policy used for, 73, 78–85, 186
monetary policy used for, 141, 147–148, 186
- Stackleberg, H. von, 307, 312
- Stackleberg–Nash solution, 307, 312
- Stock-equilibrium model, 183–188
- Subsidies, and national markets, 75–78
- Supranational state, as ideal type, 15–16, 150
- System capacity, 131
- Tariff war, 26
- Taxation
beyond national boundaries, 150
history of, in U.S., 101–105
redistributive, 92
by states, 102–103
- Tax ceiling, and solvency constraint, 245
- Tax/expenditure system, 88–91, 323
- Tax jurisdiction, mobility and, 92
- Temin, Peter, 26
- Tiebout, Charles, 89, 95–96, 118n12
- Tinbergen, J., 156, 304
- Tobin, J., 187, 326n13
- Tradeables, in optimal borrowing model, 241–243, 267–268
- Trade credits, 271–272
- Trade wars, 33, 46–47
- Trading blocs, 123, 126
- Triffin, Robert, 125
- Unemployment, exportation of, 4
- United States
hegemony of, 16
expansionary monetary policy of, 62–63, 105
as oligop., 313
- regulation of corporations by states in, 102
- Viner, J., 126
- Wage-settlement process, 55
- Waltz, Kenneth, 21n1, 22n9
- Warner, J., 257
- Westphalian system, 19–20
- Wicksell, Knut, 71–72, 88, 112
- Wilson, Harold, 9
- World Bank, 30, 38, 138