

The American Economic Review

ARTICLES

COLLEGE OF NEW CALEDONIA
LIBRARY

- KATHRYN M. DOMINGUEZ, RAY C. FAIR, AND MATTHEW D. SHAPIRO
Forecasting the Depression: Harvard versus Yale
- PAUL R. GREGORY AND IRWIN L. COLLIER, JR.
Unemployment in the Soviet Union: Evidence from
the Soviet Interview Project
- LEIF DANZIGER
Costs of Price Adjustment and the Welfare Economics
of Inflation and Disinflation
- GUILLERMO A. CALVO
Servicing the Public Debt: The Role of Expectations
- LAURENCE J. KOTLIKOFF, TORSTEN PERSSON, AND LARS E. O. SVENSSON
Social Contracts as Assets: A Possible Solution to
the Time-Consistency Problem
- ZOLTAN J. ACS AND DAVID B. AUDRETSCH
Innovation in Large and Small Firms: An Empirical
Analysis
- CHARLES BLACKORBY AND DAVID DONALDSON
Cash versus Kind, Self-Selection, and Efficient
Transfers
- WALTER HETTICH AND STANLEY L. WINER
Economic and Political Foundations of Tax Structure
- JENNIFER F. REINGANUM
Plea Bargaining and Prosecutorial Discretion
- ARYE L. HILLMAN AND HEINRICH W. URSPRUNG
Domestic Politics, Foreign Interests, and
International Trade Policy
- LEONARD K. CHENG
Assisting Domestic Industries under International
Oligopoly: The Relevance of the Nature of Competition
to Optimal Policies
- ROY J. RUFFIN
The Missing Link: The Ricardian Approach to the
Factor Endowments Theory of Trade
- RICHARD E. BALDWIN
Hysteresis in Import Prices: The Beachhead Effect

SHORTER PAPERS: W. H. Kaempfer and A. D. Lowenberg; S. Ishizawa, A. Alesina; A. E. Roth, J. K. Murnighan, and F. Schoumaker; J. Neelin, H. Sonnenschein, and M. Spiegel; K. Binmore, A. Shaked, and J. Sutton.

SEPTEMBER 1988

THE AMERICAN ECONOMIC ASSOCIATION

Founded in 1885

Officers

President

ROBERT EISNER

Northwestern University

President-elect

JOSEPH A. PECHMAN

The Brookings Institution

Vice-Presidents

MARTIN S. FELDSTEIN

National Bureau of Economic Research
and Harvard University

F. M. SCHERER

Swarthmore College

Secretary-Treasurer

C. ELTON HINSHAW

Vanderbilt University

Editor of The American Economic Review

ORLEY C. ASHENFELTER

Princeton University

Editor of The Journal of Economic Literature

JOHN PENCABEL

Stanford University

Editor of The Journal of Economic Perspectives

JOSEPH E. STIGLITZ

Stanford University

Executive Committee

Elected Members of the Executive Committee

SHERWIN ROSEN

University of Chicago

THOMAS J. SARGENT

University of Minnesota

ROBERT J. BARRO

Harvard University

JUDITH A. THORNTON

University of Washington

GEORGE A. AKERLOF

University of California-Berkeley

ISABEL V. SAWHILL

Urban Institute

EX OFFICIO Members

ALICE M. RIVLIN

The Brookings Institution

GARY S. BECKER

University of Chicago

● Printed at Banta Company, Menasha, Wisconsin.

● No responsibility for the views expressed by authors in this *Review* is assumed by the editors or the publishers, The American Economic Association.

Correspondence relating to advertising, business matters, permissions to quote, subscriptions, and changes of address, should be sent to the American Economic Association, 1313 21st Avenue South, Suite 809, Nashville, TN 37212-2786. Please remit membership payment with the application included elsewhere in this journal. Change of address notice must be received at least six (6) weeks prior to the publication month. A membership or subscription paid twice is automatically extended for an additional year unless otherwise requested.

THE AMERICAN ECONOMIC REVIEW (ISSN 0002-8282), September 1988, Vol. 78, No. 4, is published five times a year (March, May, June, September, December) by the American Economic Association, 1313 21st Avenue South, Suite 809, Nashville, TN 37212-2786. Annual subscription fees: Institutional subscriber-\$125.00, Individual subscriber-\$72.00, Regular members-\$38.50, \$46.20, or \$53.90 depending on income. A subscription also includes the *Journal of Economic Literature* and the *Journal of Economic Perspectives*. In countries other than the U.S.A., add \$16.00 for extra postage. Second-class postage paid at Nashville, TN and at additional mailing offices. POSTMASTER: Send address changes to the *American Economic Review*, 1313 21st Avenue South, Suite 809, Nashville, TN 37212-2786.

THOMAS CROMBIE SCHELLING

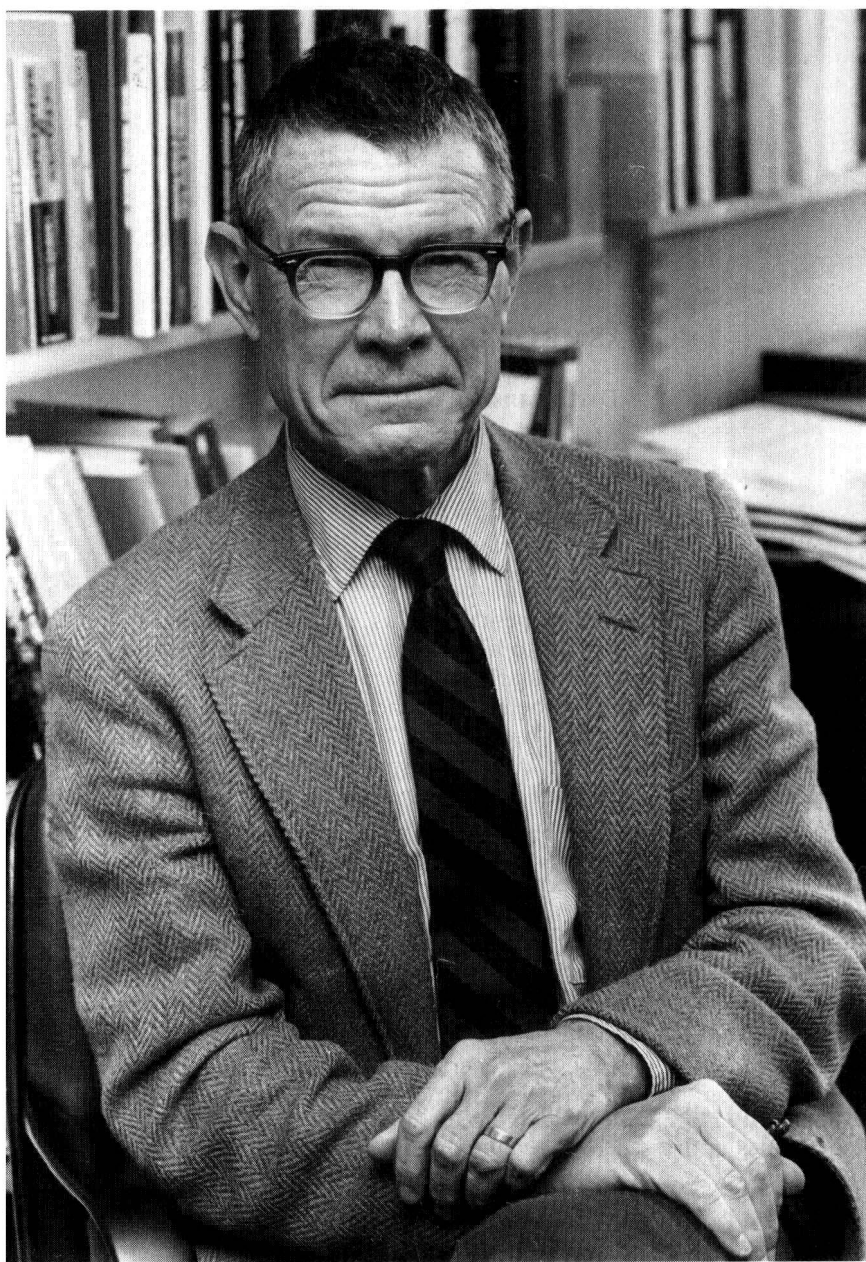
DISTINGUISHED FELLOW

1988

Thomas Crombie Schelling pioneered in the field of “nonmathematical game theory,”—the analysis of social and economic behavior when each participant’s behavior depends on his expectations about how each of the others will respond to his actions, taking account of the fact that each of the others is similarly influenced by expectations about how he will respond to their behavior. Schelling erected a conceptual framework for describing such morasses of reciprocal expectations, and by so doing unified a wide variety of disjoint theories, including the theories of oligopoly, military and diplomatic strategy, negotiation, teamwork, and communication.

Schelling’s theory of social relationships and his varied applications of it result from a uniquely fruitful symbiosis of theory and practice. He has an extraordinary gift for perceiving the essence of a social or economic situation involving several participants of diverse or coincident interests, and portraying it in vivid, concrete terms. He has presented his theoretical insights and their practical applications in a long series of influential papers and monographs.

As a teacher, he has excited generations of students in his classic course on “Conflict and Strategy,” enriched by practical illustrations, and has made his theories widely accessible by many lively and stimulating articles addressed to the general reader.



Tschelung

The DATA SERVICE & INFORMATION GMBH and the STATISTICAL OFFICE OF THE EUROPEAN COMMUNITIES
present

THE NEW DATABASE ON YOUR PERSONAL COMPUTER



DSI GMBH

EUROSTAT

US-\$ 500* p. year

The economic indicators of Europe, the United States and Japan

ON DISK



The official economic database of the EC COMMISSION:

The main economic indicators of the 12 EEC-Countries, the United States and Japan.
Monthly updating for subscribers. Historical database for the period from 1960 onwards.

For further details, please contact:

☎ 0 28 43 / 6 02 73

*) plus postage and packing

DATA SERVICE & INFORMATION GMBH

P.O. Box 1127

D-4134 RHEINBERG 1, WEST-GERMANY

Please mention THE AMERICAN ECONOMIC REVIEW When Writing to Advertisers

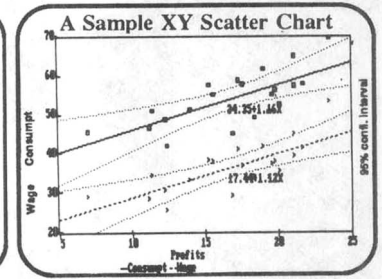
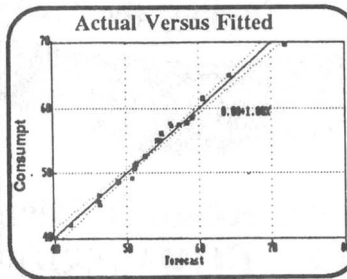
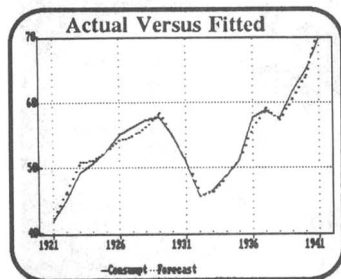
Integrates SPREADSHEET + STATISTICS + FORECASTING + GRAPHICS and is Easy to Use.

- ySTAT is the only full-fledged spreadsheet statistical program - a fast, powerful, easy-to-use stand-alone program.
- Menu-driven format as in Lotus 1-2-3 - offers many functions that are not available even in 1-2-3, such as vector formulas, lagged variables, dummy variables, moving averages, and interpolation of missing values.
- You can read, enter, edit, copy, move, and sort the data as well as group and partition the data for analysis right on the spreadsheet. A total of 40 function keys for one-keystroke operations.
- Ten statistical function keys: to tally sums and means; subtract variable means or seasonal means; standardize the data; aggregate seasonal data; generate seasonal indicators; perform moving averages, linear trend forecasts, and so on.
- ySTAT reads 1-2-3 and Symphony worksheet files directly, and any free-format or fixed-format textfile generated by other PC programs or downloaded from mainframe. The data can be numeric, alphabetic, including missing values.
- Mean, median, quartiles, skewness, mode, t-test, frequency distribution, correlation, crosstabs, analysis of variance.
- Multiple regression (OLS), standardized regression, weighted least squares, two-stage least squares, polynomial regression, and Cochrane-Orcutt method. Including diagnostic residual analysis output (see sample at right).
- Pooling of cross-section and time-series data.
- Two-sample difference of means test, nonparametric tests (Kolmogorov-Smirnov test, Wald-Wolfowitz runs test, Mann-Whitney test, Wilcoxon matched-pairs signed-ranks test) and Spearman's and Kendall's rank-order correlations.
- Time-series models: autoregressive model, moving average model, and Box-Jenkins model.
- Nonseasonal forecasts: linear trend, quadratic trend, polynomial model, sinusoidal model; simple, double and triple exponential smoothings.
- Seasonal forecasts: exponential smoothings with seasonal indicators or with trigonometric functions; Winters' additive and multiplicative procedures.
- LOGIT, PROBIT, TOBIT, and Weighted Probit regressions: these models are twice as fast as Gauss program and faster than other programs and are much easier to use.

High-resolution color charts : the actual and forecast values are graphically displayed as a line chart and also as an XY chart, including a regression line and its 95% confidence interval.

| OLS -- DEPENDENT VARIABLE: Consume | | | | | |
|---|-----------------------|----------------|-------------|----------|-----------------------|
| RIGHT-HAND VARIABLE | ESTIMATED COEFFICIENT | STANDARD ERROR | T-STATISTIC | PROB. | |
| 1 Profits | 0.19294381 | (0.09121) | T= 2.11527 | 0.049 | |
| 2 P-1 | 0.08984898 | (0.09065) | T= 0.99158 | 0.335 | |
| 3 M+M | 0.79621875 | (0.03994) | T= 19.93342 | 0.000 | |
| 4 Constant | 16.23660272 | (1.30270) | T= 12.46382 | 0.000 | |
| SAMPLE SIZE (1 to 21) = 21 (DF=17) | | | | | |
| SUM OF SQUARED RESIDUALS = 17.879449 | | | | | |
| VARIANCE (MSE) = 1.051732 | | | | | |
| STANDARD ERROR (ROOT MSE) = 1.025540 | | | | | |
| ADJUSTED R-SQUARED = 0.981008 | | | | | |
| F-STATISTIC (3, 17) = 292.707595 (p=0.0004) | | | | | |
| SUM OF RESIDUALS = -0.000000 | | | | | |
| DURBIN-WATSON STATISTIC = 1.367474 | | | | | |
| Analysis of Variance | | | | | |
| | Source | SUM SQ | DF | MEAN SQ | |
| | Due to Regression | 923.550 | 3 | 307.850 | |
| | Residual | 17.879 | 17 | 1.052 | |
| | Total | 941.430 | 20 | 47.071 | |
| RESIDUAL ANALYSIS -Mean: -0.000 Adj. RMSE: 0.946 Mean Abs. & Err: 1.283 | | | | | |
| AUTOCORRELATIONS | | | | | |
| LAG | COEF | T-VAL | | | LAG |
| 1 | 0.181 | 0.83 | | | 1 |
| 2 | -0.059 | -0.27 | | | 2 |
| 3 | -0.033 | -0.15 | | | 3 |
| 4 | -0.157 | -0.69 | | | 4 |
| 5 | -0.411 | -1.81 | | | 5 |
| Ljung-Box statistic (chi-square 4 DF): 6.698 (p=0.1527) | | | | | |
| PARTIAL AUTOCORRELATION | | | | | |
| LAG | COEF | T-VAL | | | LAG |
| 1 | 0.181 | 0.83 | | | 1 |
| 2 | -0.059 | -0.27 | | | 2 |
| 3 | -0.033 | -0.15 | | | 3 |
| 4 | -0.157 | -0.69 | | | 4 |
| 5 | -0.411 | -1.81 | | | 5 |
| ACTUAL versus FITTED VALUES AND RESIDUALS | | | | | |
| SEQ | Actual | Fitted | Residual | Std. Err | Error |
| 1 | 41.90 | 42.22 | -0.324 | 1.026 | <<< |
| 2 | 45.00 | 45.25 | -0.250 | 1.026 | <<< |
| 3 | 49.20 | 50.77 | -1.566 | 1.026 | <<< |
| 4 | 50.60 | 51.09 | -0.494 | 1.026 | <<< |
| 5 | 52.60 | 52.59 | 0.008 | 1.026 | >>> |
| 6 | 55.10 | 54.23 | 0.869 | 1.026 | >>> |
| 7 | 56.20 | 54.86 | 1.338 | 1.026 | >>> |
| 8 | 57.30 | 56.25 | 1.055 | 1.026 | >>> |
| 9 | 57.80 | 58.39 | -0.589 | 1.026 | <<< |
| 10 | 55.00 | 54.72 | 0.282 | 1.026 | >>> |
| 11 | 50.90 | 51.13 | -0.230 | 1.026 | <<< |
| 12 | 45.60 | 45.92 | -0.322 | 1.026 | <<< |
| 13 | 46.50 | 46.18 | 0.322 | 1.026 | >>> |
| 14 | 48.70 | 49.76 | -1.058 | 1.026 | <<< |
| 15 | 51.30 | 51.33 | -0.035 | 1.026 | <<< |
| 16 | 57.70 | 56.08 | 1.616 | 1.026 | >>> |
| 17 | 58.70 | 59.14 | -0.436 | 1.026 | <<< |
| 18 | 57.50 | 57.29 | 0.210 | 1.026 | >>> |
| 19 | 61.60 | 60.61 | 0.989 | 1.026 | >>> |
| 20 | 65.00 | 64.21 | 0.785 | 1.026 | >>> |
| 21 | 69.70 | 71.87 | -2.173 | 1.026 | <<< |
| LIST OF OUTLIERS - STUDENTIZED RESIDUALS GREATER THAN 1.50 | | | | | |
| SEQ | Actual | Fitted | Residual | Std. Err | Studentized Residuals |
| 3 | 49.20 | 50.77 | -1.566 | 0.967 | -1.618 |
| 16 | 57.70 | 56.08 | 1.616 | 0.958 | 1.687 |
| 21 | 69.70 | 71.87 | -2.173 | 0.780 | -2.787 |

(Note: this sample output shows some of the options for regression diagnostics.)



MING TELECOMPUTING INC.

23 Oak Meadow Road, P.O. Box 101, Lincoln Center, MA 01773, U.S.A. (617) 259-0391

Order: () ySTAT for \$395. () ySTAT/Medical for \$395.
() Trial Disk and information/sample output for \$5.
() Information/sample output.
System: () IBM PC. () XT. () AT. () System 2 Model_____
() Other system_____
Options: () with 8087 or 80287 or 80387 math co-processor.
() IBM CGA () EGA () Hercules Mono. Card
Type of printer or plotter_____

Payment: () Check or money order.
() U.S. university or governmental purchase order.
() Visa. () MC. Card No._____
Name_____ Expir. date ____/____/_____
Address_____
Telephone: () _____

IBM is a registered trademark of International Business Machines Corp.; 1-2-3 of Lotus Development Corp.; Gauss of Aptech Systems, Inc.

Please mention THE AMERICAN ECONOMIC REVIEW When Writing to Advertisers

**The National Association of Forensic Economists
Announces the**

Journal of Forensic Economics

Professional journal with refereed articles on
economic loss calculations in the litigation of:

Injury/Death Anti-Trust Business Loss
Employment Discrimination

**Membership includes Economists and Financial
Appraisers from 50 states and over 250
Universities and Firms.**

Association Membership includes subscription to the Journal of Forensic
Economics, Association Newsletters and Participation in Regional and
Meetings "Call for Papers" - ASSA meetings, New York,
December 28 - 30, 1988

**Triannual: \$60.00 per year. Order from: National Association of
Forensic Economists, PO Box 30067, Kansas City, MO 64112**

JOB OPENINGS FOR ECONOMISTS

Available only to AEA members and institutions that agree to list their openings.

Annual Subscription Rates

U.S.A., Canada, and Mexico (first class): \$15.00, regular AEA members and institutions
\$ 7.50, junior members of AEA
All other countries (air mail): \$22.50, regular AEA members and institutions
\$15.00, junior members of AEA

Please begin my issues with:

☐ February ☐ April ☐ June ☐ August ☐ October ☐ December

Name _____

First

Middle

Last

Address _____

City

State/Country

Zip/Postal Code

Check one:

- ☐ I am a member of the American Economic Association.
☐ I would like to become a member. My application and payment are enclosed.
☐ (For institutions) We agree to list our vacancies in JOE.

Send payment (U.S. currency only) to:

**THE AMERICAN ECONOMIC ASSOCIATION
1313 21st Avenue South
Nashville, Tennessee 37212**

Please mention THE AMERICAN ECONOMIC REVIEW When Writing to Advertisers

Economics has more to offer than free market economics, mathematical abstrusity, and the Marxist paradigm. . .

If you DISAGREE, do not read further!

**If you AGREE, consider teaching a course in your
department that uses:**

Economics as Social Science: An Evolutionary Approach

Wendell Gordon *The University of Texas, Austin*
and

John Adams *The University of Maryland, College Park*

Economics as Social Science is a new and modern exposition of the ideas of evolutionary (American institutional) economics. The book is a useful and stimulating introduction to the methods and theory of contemporary institutional economics. Gordon and Adams contrast the evolutionary approach with standard microeconomics and macroeconomics, and with Marxism. As a text, *Economics as Social Science* may be used in courses in non-orthodox and heterodox economics, or economic ideas.

If you are UNDECIDED, answer the following true-false questions: 1. The institutions, technology, and values of society do not change, as orthodox economic theory usually assumes. (FALSE) The world in which we live is a dynamic, changing place. 2. People are driven exclusively by rational gain considerations (profit and utility maximization), as conventional economists assume. (FALSE) Managers and consumers act on the basis of complex motives which they themselves do not fully understand. 3. Firms usually operate under conditions of perfect competition, as standard price theory alleges. (FALSE) Oligopolies are widely prevalent and it is difficult to identify even one major competitive industry in the modern American economy. 4. Economics increasingly resembles formal mathematics rather than a science of society. (TRUE) Orthodox economics uses intricate and opaque geometry, algebra, and calculus to try to prove its recondite arguments. 5. Economics is purely "positive" and "value free." (FALSE) Economics is a social science dealing with human behavior and has an obligation to explain how people's values arise and change.

About Examination Copies:

If you AGREED with the initial proposition, or if you answered correctly three or more of the true-false questions, then you are invited to request an examination copy of:

Economics as Social Science: An Evolutionary Approach

by
Wendell Gordon and John Adams

Cloth \$33.00 (\$25.00 for classroom use) ISBN: 0 913215 38 4

THE RIVERDALE COMPANY, Publishers

5506 Kenilworth Ave. - #102 - Riverdale, Maryland 20737 - (301) 864-2029

New Books in Business and Economics from Praeger Publishers and Quorum Books

PSYCHOLOGICAL FOUNDATIONS OF ECONOMIC BEHAVIOR

Edited by **Paul J. Albanese**

Broadens the behavioral basis of economic analysis to a social level and expands the limits of economic theory's applicability.

Available October 1988. ISBN 0-275-92742-3. \$43.00 tent.

THE INVESTMENT PERFORMANCE OF CORPORATE PENSION PLANS

Why They Do Not Beat the Market Regularly
by **Stephen A. Berkowitz, Louis D. Finney,**
and **Dennis E. Logue**

Examines why corporate pension plans have not matched the performance of mutual funds and what can be done to reverse this trend.

1988. ISBN 0-89930-224-6. \$35.00

HANDBOOK OF THE MONEY AND CAPITAL MARKETS

by **Alan Gart**

"...thorough, comprehensive and provides an in-depth description of the financial markets and related financial instruments....a useful reference and source of guidance in investment making decisions."

—Rosanne Gatta, Assistant Vice President
and Treasurer, Provident Mutual

1988. ISBN 0-89930-270-X. \$49.95

POPULATION GROWTH AND SOCIOECONOMIC PROGRESS IN LESS DEVELOPED COUNTRIES

Determinants of Fertility Transition

by **Peter N. Hess**

Examines fertility rates and their trends and determinants in less developed countries by testing an empirical, interdisciplinary model of the fertility transition.

1988. ISBN 0-275-92979-5. \$39.95

U.S. INTERNATIONAL COMPETITIVENESS

Evolution or Revolution?

by **John C. Hilke** and **Philip B. Nelson**

Challenges the common assumptions concerning the causes of America's growing trade deficit.

1988. ISBN 0-275-92964-7. \$37.95

THE MODERN ECONOMICS OF HOUSING

A Guide to Theory and Policy for Finance
and Real Estate Professionals

by **Randall Johnston Pozdena**

A highly readable examination of the various theories that have been advanced to explain the economic behavior of today's housing market.

1988. ISBN 0-89930-230-0. \$39.95

SMALL BUSINESS, BANKS, AND SBA LOAN GUARANTEES

Subsidizing the Weak or Bridging a Credit Gap?

by **Elisabeth Holmes Rhyne**

Clarifies the reasons for the often heated debate about the Small Business Administration and offers new insights into whether the program does indeed subsidize the weak or perform a valuable service in bridging the small business credit gap.

1988. ISBN 0-89930-256-4. \$39.95

NET ENERGY ANALYSIS AND THE ENERGY REQUIREMENTS OF ENERGY SYSTEMS

by **Daniel T. Spreng**

Thoroughly explains the theoretical principles underlying net energy analysis, offers examples of how these principles are applied, and provides an impartial critique of current methods.

1988. ISBN 0-275-92796-2. \$47.95



Praeger Publishers/Quorum Books

A division and imprint of Greenwood Press, Inc.

88 Post Road West, P.O. Box 5007, Westport, CT 06881, (203) 226-3571



PRINCETON UNIVERSITY PRESS

REASONS FOR WELFARE The Political Theory of the Welfare State *Robert E. Goodin*

Robert Goodin passionately and cogently defends the welfare state from current attacks by the New Right. But he contends that the welfare state finds false friends in those on the Old Left who would justify it as a hesitant first step toward some larger, ideally just form of society.

"...erudite and very well researched, yet written in an extraordinarily clear, jargon-free, and concise style. The issues with which it deals are of central importance not only in political philosophy but also in real-world policy debates."

—*Allen Buchanan, University of Arizona*
Studies in Moral, Political, and Legal Philosophy
Marshall Cohen, Editor

Paper: \$14.95 ISBN 0-691-02279-8

Cloth: \$45.00 ISBN 0-691-07766-5

DEMOCRACY AND THE WELFARE STATE Edited by *Amy Gutmann*

These essays explore the moral foundations and the political prospects of the welfare state in the United States. They confront powerful criticisms that have been leveled against the welfare state by conservatives, liberals, and radicals and suggest reforms in welfare state programs that might meet these criticisms.

Studies from the Project on the Federal Social Role
Forrest Chisman and Alan Pifer, Series Directors

Paper: \$12.95 ISBN 0-691-02275-5

Cloth: \$37.50 ISBN 0-691-07756-8

THE POLITICS OF SOCIAL POLICY IN THE UNITED STATES Edited by *Margaret Weir,* *Ann Shola Orloff,* *and Theda Skocpol*

This volume places the welfare debates of the 1980s in the context of past patterns of U.S. policy, such as the Social Security Act of 1935, the failure of efforts in the 1940s to extend national social benefits and economic planning, and the backlashes against "big government" that followed reforms of the 1960s and early 1970s. The editors suggest how new family and employment policies might revitalize political coalitions and further basic national values.

Studies from the Project on the Federal Social Role
Forrest Chisman and Alan Pifer, Series Directors

Paper: \$14.50 ISBN 0-691-02841-9

Cloth: \$52.00 ISBN 0-691-09436-5

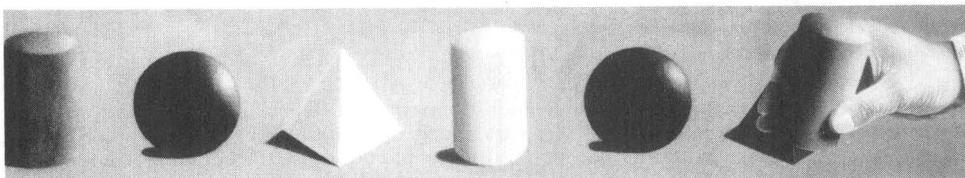


AT YOUR BOOKSTORE OR

Princeton University Press

41 WILLIAM ST. • PRINCETON, NJ 08540 • (609) 452-4900
ORDERS: 800-PRS-ISBN (777-4726)

***This fall, a lot of micro students will exceed expectations—
thanks to Eaton and Eaton's MICROECONOMICS***



Eaton and Eaton is the intermediate micro text based on the notion that learning economics is doing economics. The notion is working.

Published less than one year ago, Eaton and Eaton has been adopted at a long list of schools across the country. How does a new text become so popular so rapidly? With exceptionally clear writing and careful development of ideas to help students grasp important material. Find out for yourself. Eaton and Eaton is worth a close look.

"...a well thought out book. Especially attractive is the approach emphasizing that (micro)economics involves building models and solving problems."

—Peter Huang, *Tulane University*

"A first rate text." —O. Honkalehto, *Colgate University*

1988, 471 pages, ISBN 0-7167-1818-9 With complete supplementary package



W. H. Freeman and Company

The book publishing arm of *Scientific American* • 41 Madison Avenue, New York, NY 10010

NEW FROM THE IMF

Staff Studies for the World Economic Outlook, July 1988

Two background papers prepared for the latest World Economic Outlook comprise this year's volume of staff studies. The first paper gives an analysis of the accuracy of the short-term forecasts in the Outlook; the second gives the details of MULTIMOD, the econometric model that supports the analysis of the forecasts. A basic reference for all interested in global economic analysis and forecasting.

ISBN: 1-55775-023-8

Price: US\$15.00 (US\$11.00 to university libraries, faculty members, and students).

Available from: Publication Services • Box No. E-413
International Monetary Fund • 700 19th Street, N.W.
Washington, D.C. 20431, U.S.A. • Telephone (202) 623-7430

Please mention THE AMERICAN ECONOMIC REVIEW When Writing to Advertisers

Oxford

Employment Futures

Reorganization, Dislocation, and Public Policy

PAUL OSTERMAN, *Massachusetts Institute of Technology*

"Most Americans earn most of their income in the labor market. The skills in that labor market in turn are the prime determinant of any country's success or failure. Given this individual and community reality, it is important that we both understand our current labor and learn how to improve it. Paul Osterman's *Employment Futures* is an essential place to start on that process."

—Lester Thurow, *Massachusetts Institute of Technology*

1988 224 pp. \$24.95

The Economics of Missing Markets, Information, and Games

Edited by FRANK HAHN, *University of Cambridge*

This collection of papers is the result of a University of Cambridge study of the consequences of missing markets, asymmetric information, market-dependent information, strategic market situations, and the role of quantity signals. The contributors also consider the behavior of overlapping generation models and their macroeconomic implications, providing a useful reference text on most of the main issues of current interest to economic theorists.

October 1988 256 pp. \$55.00

The Open Economy

Tools for Policymakers in Developing Countries

Edited by RUDIGER DORNBUSCH, *Massachusetts Institute of Technology*, and

F. LESLIE C.H. HELMERS, *formerly of the World Bank*

This important book is a teaching manual, written in nontechnical language, on policymaking in developing countries. Written at the request of the Economic Development Institute of the World Bank, the papers focus on policy instruments, their use and constraints, and provide case studies of economic policy in Argentina, Brazil, Indonesia, Korea, and Mexico to illustrate basic problems and possible solutions.

(A World Bank Publication) (EDI Series in Economic Development)

1988 424 pp.; illus. cloth \$38.00 paper \$14.95

Keynes's Vision

ATHOL FITZGIBBONS, *Griffith University, Queensland*

In this readable yet scholarly reevaluation of the thought of John Maynard Keynes, Fitzgibbons traces the great economist's vision as it developed from his early philosophical writings (including many unpublished or neglected works) through the *Collected Writings*. Focusing on how Keynes understood significant political and economic matters, Fitzgibbons charts the evolution of his system of political economy, provides fresh insights into his approach to economic policy, and challenges the view of Keynes as a political liberal.

1988 224 pp. \$44.00

Consumer Safety Regulation

Putting a Price on Life and Limb

PETER ASCH, *Rutgers University*

This book, written by an economist, critically assesses the rationales for, and the effects of, our major consumer safety programs. Incorporating relevant literature on cognitive psychology as well as economics, the author argues that although legitimate reasons for public protection of consumers exist in some markets, the particular programs we adopt often produce results that fall far short of what their advocates desire, and at least occasionally yield perverse outcomes.

1988 190 pp.; 17 linecuts \$24.95

Prices and publication dates are subject to change.

To order, send check or money order to: Humanities and Social Sciences Marketing Department

Oxford University Press

200 Madison Avenue • New York, NY 10016

Please mention THE AMERICAN ECONOMIC REVIEW When Writing to Advertisers

North-Holland

New Books in Economics

Statistical Data Bank Systems

Socio-Economic Database and Model Building in Japan

edited by K. Uno and S. Shishido

1988 x + 362 pages

Price: US \$92.00/Dfl. 175.00

ISBN 0-444-70397-7

This book reports on the latest developments in statistical database and quantitative analysis in Japan. The articles are the outcome of the Project MUSE (Multiple-Use Socio-Economic) Data Bank. The purpose of the research was to promote interdisciplinary research regarding the feasibility of a statistical data bank in the social science field in response to increasing social needs.

Explaining the Growth of Government

edited by J.A. Lybeck and M. Henrekson

(Contributions to Economic Analysis, 171)

1988 viii + 396 pages

Price: US \$86.75/Dfl. 165.00

ISBN 0-444-70426-4

The aim of this book is to explain the post-war growth of the public sector in a number of developed economies. The purpose is to see whether scientists familiar with their respective countries' institutional, political and economic framework, but still working as a group, can advance some common factors behind the growth of government. The authors are either economists or political scientists (or both) but having a strong empirical background.

A Study of Trade among Developing Countries, 1950-1980: An Appraisal of the Emerging Pattern

by H.C. Thomas

(Contributions to Economic Analysis, 170)

1988 xvi + 242 pages

Price: US \$65.75/Dfl. 125.00

ISBN 0-444-70385-3

The accelerated growth of trade among developing countries during the 1970s has

attracted both policy and analytical interest. While the latter interest is concerned to explain this phenomenon either in relation to existing theories of trade or through new or special theories, the former interest is concerned with the implications of this trade for global economic welfare and in particular, for the income growth and development prospects of the poorer, underdeveloped regions of the world.

Spatial Analysis and Planning under Imprecision

by Y. Leung

(Studies in Regional Science & Urban Economics, 17)

1988 xviii + 376 pages

Price: US \$86.75/Dfl. 165.00

ISBN 0-444-70390-X

The book deals with complexity, imprecision, human valuation, and uncertainty in spatial analysis and planning, providing a systematic exposure of a new philosophical and theoretical foundation for spatial analysis and planning under imprecision. Regional concepts and regionalization, spatial preference-utility-choice structures, spatial optimization with single and multiple objectives, dynamic spatial systems and their controls are analyzed in sequence.

Plans and Disequilibria in Centrally Planned Economies

Empirical Investigations for Poland

by W. Charemza and M. Gronicki

(Contributions to Economic Analysis, 159)

1988 xi + 188 pages

Price: US \$94.75/Dfl. 180.00

ISBN 0-444-70100-1

Co-publication with PWN Publishers. Distributed in the East European countries by Ars Polona, Warsaw, Poland

The purpose of this study is to investigate interrelations between planning mechanisms and disequilibria in a case where the planning decisions are centralized and are exogenously given to enterprises.

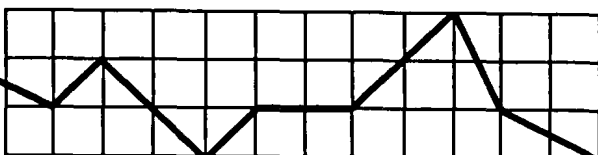
North-Holland

In the U.S.A. and Canada:
Elsevier Science Publishing Co. Inc.,
P.O. Box 1663, Grand Central Station,
New York, NY 10163, U.S.A.

In all other countries:
Elsevier Science Publishers,
Book Order Department,
P.O. Box 211,
1000 AE Amsterdam, The Netherlands.

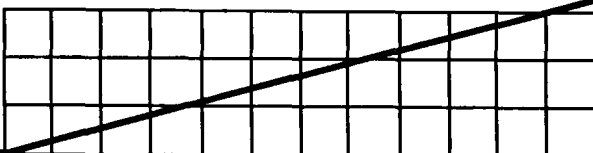
US \$ prices are valid only in the USA and Canada. In all other countries the Dutch Guilder (Dfl.) price is definitive. Customers in the Netherlands, please add 6% B.T.W. In New York State applicable sales tax should be added. All prices are subject to change without prior notice.

NH/ECON/BK/0970a



**While the economic
market may fluctuate...**

**the quality of our
texts never does.**



Just Revised

PRINCIPLES OF ECONOMICS, 4th Edition

Ryan C. Amacher and Holley H. Ulbrich
Clemson University

Featuring a balanced presentation of principles from the market perspective, this introductory package is available in comprehensive format or in split versions (one macro, one micro).

This newly revised edition covers the most important topics in micro- and macroeconomics: aggregate supply—market and government failure—international issues. The emphasis is on pragmatic analysis, not strong ideologies.

Just Revised

ECONOMICS: The Science of Common Sense, 6th Edition

Elbert V. Bowden, Chair of Banking,
Appalachian State University

Providing students with a conceptual understanding of economics, this revised text features a variety of pedagogical aids that make learning and teaching simpler.

An up-to-date emphasis on conditions of the late 1980s ('87 stock market crash, government deficit, trade deficit), plus coverage of international topics in each chapter, enhances students' understanding of current economic trends and issues.

ECONOMICS: A Contemporary Introduction

William McEachern, University of
Connecticut

This engaging new text covers current issues in macroeconomics (U.S. productivity, federal budgeting, and the natural rate hypothesis) as well as microeconomics (the role of time and information in production and consumption) with fresh, contemporary style.

Numerous examples, diagrams, and case studies reinforce theory throughout the text, while the supplementary package is the most complete available.

MACROECONOMICS: Theory and Policy

Steven M. Sheffrin, University of
California, Davis

David A. Wilton, University of Waterloo
David M. Prescott, University of Guelph

This rigorous, forthright text juxtaposes the standard IS-LM curve with the PEP model to provide a solid framework of analysis.

Timely topics, such as hysteresis and the European unemployment rate, exchange rate overshooting, the new classical economics, and real business cycle theory, are covered in detail.

For more information on our stable economics texts,
contact the South-Western representative in your area.

SOUTH-WESTERN
COLLEGE DIVISION

5101 Madison Road • Cincinnati, OH 45227

Please mention THE AMERICAN ECONOMIC REVIEW When Writing to Advertisers

AEA sponsored Group Life Insurance for you and your family— at attractive rates!

The AEA Group Life Insurance Plan can help provide valuable supplementary protection—at attractive rates—for eligible members and their dependents.

Because AEA participates in a large Insurance Trust which includes other scientific and technical organizations, the low cost may be even further reduced by premium credits. In the past nine years, insured members received credits on their April 1 semiannual payment notices averaging 40% of their annual premium contributions. (These credits are based on the amount paid during the previous policy year ending September 30.) Of course future premium credits, and their amounts, cannot be promised or guaranteed.

Now may be a good time for you to re-evaluate your present coverage and look into AEA Life Insurance. Just fill out and return the coupon for more details at no obligation.

Administrator, AEA Group Insurance Program
1255 23rd Street, N.W.
Washington, D.C. 20037

J-6

Please send me more information about the AEA Life Insurance Plan.

Name _____ Age _____

Address _____

City _____ State _____ Zip _____

Or—call today Toll-Free 800-424-9883
(Washington, DC area, call 296-8030)

Please mention THE AMERICAN ECONOMIC REVIEW When Writing to Advertisers

Begin making plans to attend the

Annual Meeting of The American Economic Association

(in Conjunction with Allied Social Science Associations)

to be held in

NEW YORK, NY

Dec. 27-30, 1988

The Employment Center opens Tuesday, December 27; sessions begin Wednesday, December 28.

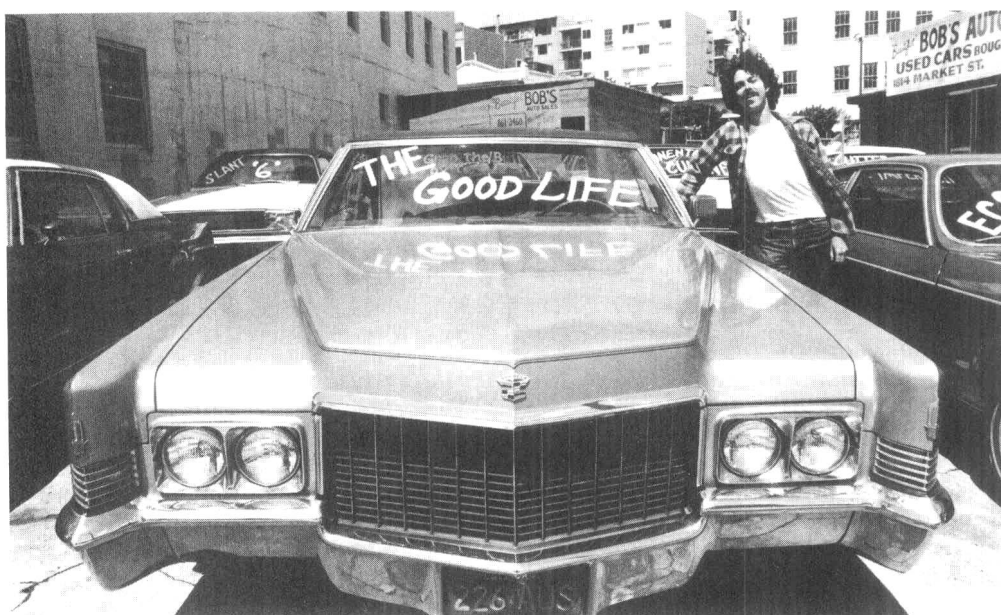
See the September *AER* for the American Economic Association's preliminary program.

The 1989 meeting will be held in Atlanta, GA, December 27-30.

R O B E R T S. / D A N I E L L.
PINDYCK / RUBINFELD

MASSACHUSETTS INSTITUTE OF TECHNOLOGY / UNIVERSITY OF CALIFORNIA, BERKELEY

MICROECONOMICS



PAGE 592

C H A P T E R 1 7

THEORY AT WORK
MACMILLAN

COLLEGE DIVISION, 866 THIRD AVE., NEW YORK, NY 10022-GIVE US A CALL AT 1-800-428-3750

Please mention THE AMERICAN ECONOMIC REVIEW When Writing to Advertisers

xiii