

Cambridge University Press

0521580862 - International Trade and Finance: New Frontiers for Research

Edited by Benjamin J. Cohen

Frontmatter

[More information](#)

---

This collection of original essays offers a selection of contemporary scholarship intended to help define an agenda for future research in the field of international trade and finance. Written to honor Peter B. Kenen and following his work, the volume is divided into three parts: international trade theory, international monetary theory, and applied policy analysis. Trade issues addressed include the role of capital in standard trade models, welfare implications of economic integration, and the relationship between economic openness and the size of government. The monetary chapters include two related essays on the effects of exchange rates on economic activity and two essays on aspects of optimum currency area theory. Applied policy papers include two essays on industrial countries, two others on developing countries, and another on problems of transition in the successor states of the former Soviet Union. Also included is an essay by Paul Krugman assessing Kenen's lifetime of scholarly achievements.

Cambridge University Press  
0521580862 - International Trade and Finance: New Frontiers for Research  
Edited by Benjamin J. Cohen  
Frontmatter  
[More information](#)

---

## **International trade and finance**

Cambridge University Press  
0521580862 - International Trade and Finance: New Frontiers for Research  
Edited by Benjamin J. Cohen  
Frontmatter  
[More information](#)

---

# **International trade and finance**

**New frontiers for research**

---

**Essays in honor of Peter B. Kenen**

edited by

**BENJAMIN J. COHEN**

*University of California,  
Santa Barbara*



Cambridge University Press  
0521580862 - International Trade and Finance: New Frontiers for Research  
Edited by Benjamin J. Cohen  
Frontmatter  
[More information](#)

---

CAMBRIDGE UNIVERSITY PRESS  
Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press  
The Edinburgh Building, Cambridge CB2 2RU, UK

Published in the United States of America by Cambridge University Press, New York

[www.cambridge.org](http://www.cambridge.org)  
Information on this title: [www.cambridge.org/9780521580861](http://www.cambridge.org/9780521580861)

© Benjamin J. Cohen 1997

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 1997  
This digitally printed first paperback version 2005

*A catalogue record for this publication is available from the British Library*

*Library of Congress Cataloguing in Publication data*

International trade and finance : new frontiers for research : essays in honor of Peter B. Kenen / [edited by] Benjamin J. Cohen.

p. cm.

ISBN 0-521-58086-2

1. International trade. 2. International finance. I. Kenen, Peter B., 1932- . II. Cohen, Benjamin J.

HF1379.15813 1997

382 - dc21

96-49927

CIP

ISBN-13 978-0-521-58086-1 hardback

ISBN-10 0-521-58086-2 hardback

ISBN-13 978-0-521-02204-0 paperback

ISBN-10 0-521-02204-5 paperback

---

## Contents

---

List of contributors	<i>page</i> vii
Introduction BENJAMIN J. COHEN	1
1 The practical theorist: Peter Kenen's contribution to international economics PAUL R. KRUGMAN	7
Peter B. Kenen: A chronology of principal publications as of June 1996	21
<b>I International trade theory</b>	
2 Nature, capital, and trade: A second look PATRICK J. CONWAY	31
3 The Meade model of preferential trading: History, analytics and policy implications ARVIND PANAGARIYA	57
4 International trade and big government DANI RODRIK	89
<b>II International monetary theory</b>	
5 Exchange rate regimes and international trade REUVEN GLICK and CLAS G. WIHLBORG	125
6 Exchange rates and investment response in Latin America LINDA S. GOLDBERG	157
7 Optimum currency areas and exchange rate volatility: Theory and evidence compared TAMIM BAYOUMI and BARRY EICHENGREEN	184
8 Optimum currency area theory: Bringing the market back in BENJAMIN J. COHEN	216

vi      **Contents**

**III Applied policy analysis**

9	Labor market adjustment and trade: Their interaction in the Triad    MARINA V.N. WHITMAN	247
10	Do the G-3 countries coordinate monetary policy? KATHRYN M. E. DOMINGUEZ	280
11	Fundamental determinants of Mexico's exchange-rate crisis of 1994    POLLY REYNOLDS ALLEN	316
12	Devaluation cycles and adjustment costs NANCY P. MARION	339
13	Payments problems in the Commonwealth of Independent States    CONSTANTINE MICHALOPOULOS	361
	Index	395

---

## Contributors

---

POLLY REYNOLDS ALLEN is Professor of Economics at the University of Connecticut. An expert on questions of monetary union and the ECU markets in Europe, she is coauthor of *Fundamental Determinants of Real Exchange Rates* (1995). In 1980 she and Peter Kenen collaborated on a major theoretical study entitled *Asset Markets, Exchange Rates, and Economic Integration*.

TAMIM BAYOUMI is an Economist in the Research Department of the International Monetary Fund. He was educated at Cambridge and Stanford Universities and has also worked at the Bank of England. His research interests cover a wide range of issues in international economic theory and policy, and he was coauthor with Peter Kenen of a 1993 article on monetary targeting in Europe.

BENJAMIN J. COHEN is Louis G. Lancaster Professor of International Political Economy at the University of California, Santa Barbara. His books include *In Whose Interest? International Banking and American Foreign Policy* (1986) and *Crossing Frontiers: Explorations in International Political Economy* (1991). He received his Ph.D. from Columbia University in 1963.

PATRICK J. CONWAY is Professor of Economics at the University of North Carolina in Chapel Hill. A 1984 Princeton Ph.D., he is a specialist in the economics of developing countries, focusing on the interaction of developing economies with broader systemic arrangements for international trade and finance. Among his numerous publications are *Economic Shocks and Structural Adjustments: Turkey after 1973* (1987).

KATHRYN M. E. DOMINGUEZ is Associate Professor of Public Policy at the University of Michigan and a faculty research fellow at the National Bureau of Economic Research. She is the author of *Exchange Rate*

viii      **Contributors**

*Efficiency and the Behavior of International Asset Markets* (1991) and coauthor of *Does Foreign Exchange Intervention Work?* (1993). In 1992 she collaborated with Peter Kenen on an article on intervention and exchange-rate behavior in the European Monetary System.

BARRY EICHENGREEN is John L. Simpson Professor of Economics and Professor of Political Science at the University of California, Berkeley. He is a research associate of the National Bureau of Economic Research and a research fellow of the Centre for Economic Policy Research in London. He has written many books and articles on international monetary issues, including most recently *Globalizing Capital: A History of the International Monetary System* (1996), and is coauthor with Peter Kenen of a 1994 essay on managing the world economy under the Bretton Woods system.

REUVEN GLICK is Vice President at the Federal Reserve Bank of San Francisco, where he serves as Chief of the International Studies Section of the Economics Research Department and also as Director of the Bank's Center for Pacific Basin Monetary and Economic Studies. A 1979 Princeton Ph.D., he has written extensively in the areas of international macroeconomic policy, Pacific Basin economic developments, and European integration. He is coeditor of *Exchange Rate Policy and Interdependence: Perspectives from the Pacific Basin* (1994).

LINDA S. GOLDBERG is Research Officer and Senior Economist at the Federal Reserve Bank of New York. A specialist on exchange-rate systems, she received her Ph.D. from Princeton University in 1988 and has taught at New York University. Her publications have focused mainly on foreign-exchange crises arising under controlled exchange-rate regimes, foreign-exchange systems in the former Soviet Union, and implications of exchange rates for producer investment and pricing decisions in industrialized and developing countries.

PAUL R. KRUGMAN is Ford International Professor of Economics at MIT, a research associate of the National Bureau of Economic Research, and, with Peter Kenen, a member of the Group of Thirty. Winner of the AEA's John Bates Clark Medal in 1992, he has published articles and books on a wide range of topics in international trade and finance, including *Geography and Trade* (1991) and *Currencies and Crises* (1992). His latest book, *Pop Internationalism*, appeared in 1996.

NANCY P. MARION is Professor and Chair of Economics at Dartmouth College. Her publications focus on international macroeconomics and

**Contributors**

ix

finance, with an emphasis on the behavior of exchange-rate regimes. She received her Ph.D. from Princeton University in 1977.

CONSTANTINE MICHALOPOULOS is Senior Advisor for Europe and Central Asia in the World Bank and Adjunct Professor of Economics at American University. A 1966 Ph.D. from Columbia University, he has published extensively on trade and financial policy issues relating to development and countries in transition. He is coeditor of *Trade in the New Independent States* (1994).

ARVIND PANAGARIYA is Professor of Economics at the University of Maryland and codirector of the University's Center for International Economics. His many publications have addressed a variety of topics in international trade theory, trade policy, and economic integration. A 1978 Ph.D. from Princeton University, he is coeditor of *New Dimensions in Regional Integration* (1994).

DANI RODRIK is Rafiq Hariri Professor of International Political Economy at the John F. Kennedy School of Government, Harvard University. He is also a research associate of the National Bureau of Economic Research and a research fellow of the Centre for Economic Policy Research. His publications cover a wide range of topics relating to trade policy and economic reform in developing and transitional economies. A 1985 Ph.D. from Princeton University, he is coauthor of *Eastern Europe and the Soviet Union in the World Economy* (1991) and coeditor of *The Economics of Middle East Peace* (1993).

MARINA V.N. WHITMAN is Professor of Business Administration and Public Policy at the University of Michigan. Formerly Vice President and Chief Economist of the General Motors Corporation, she served as a member of the President's Council of Economic Advisors in 1972–73. She received her Ph.D. from Columbia University in 1962 and is the author of several books on international economic theory and policy, including *Reflections of Interdependence* (1979).

CLAS G. WIHLBORG is Felix Neubergh Professor in Banking and Financial Economics at the School of Economics and Commercial Law at Gothenberg, Sweden. He has also taught at New York University, the University of Southern California, the Claremont Graduate School, and the Wharton School. A specialist in the areas of international finance and macroeconomics, he received his Ph.D. from Princeton University in 1977.