

Title	Introduction
Sub Title	
Author	Ethier, Wilfred J.(Yano, Makoto) 矢野, 誠
Publisher	Keio Economic Society, Keio University
Publication year	2005
Jtitle	Keio economic studies Vol.42, No.1/2 (2005. ) ,p.i- vi
JaLC DOI	
Abstract	
Notes	Special issue in honor of Prpfessor Michihiro Ohyama
Genre	Article
URL	<a href="https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260492-20050001--003">https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260492-20050001--003</a>

慶應義塾大学学術情報リポジトリ(KOARA)に掲載されているコンテンツの著作権は、それぞれの著作者、学会または出版社/発行者に帰属し、その権利は著作権法によって保護されています。引用にあたっては、著作権法を遵守してご利用ください。

The copyrights of content available on the KeiO Associated Repository of Academic resources (KOARA) belong to the respective authors, academic societies, or publishers/issuers, and these rights are protected by the Japanese Copyright Act. When quoting the content, please follow the Japanese copyright act.

## INTRODUCTION

Wilfred J. ETHIER

*Department of Economics, University of Pennsylvania, Philadelphia, USA*

*and*

Makoto YANO

*Faculty of Economics, Keio University, Tokyo, Japan*

This special issue of the *Keio Economic Studies* honors Professor Michihiro Ohyama, who has made an enormous contribution to international economics and to the economics profession. Michihiro, like both of us editors, did his graduate work at the University of Rochester, studying international economics with Ronald Jones. He has spent most of his career in the faculty of economics of Keio University.

Michihiro has written a number of important and insightful papers on international economics (both trade and international finance) and on macroeconomic dynamics. He has also studied international development, especially direct investment and infant industries. He served as President of the Japanese Economic Association in 1997–98, and as President of the Japan Society of International Economics in 2002–2004. He also served as a member of the Science Council of Japan in 1997–2000.

Of all of Michihiro's contributions, the first that comes to everyone's mind is his classic paper, "Trade and Welfare in General Equilibrium," which appeared in this journal in 1972. Of this paper, Ronald Jones (this issue) writes,

Ohyama was able to state and provide intuitively appealing proofs of basic propositions concerning gains from trade and how to compare utilities on two trading equilibria finite differences apart. This work provides a considerable extension of earlier results of Paul Samuelson and Murray Kemp and represents the best results in this area of trade theory.

Indeed, Michihiro's general theorem on welfare comparison in his 1972 paper provides a unifying normative criterion to evaluate various phenomena encompassing country-wide and world-wide gains from trade, terms-of-trade improvement, the welfare ranking of various policies, economic growth, unilateral transfers, infant industries, and customs unions. His work has been covered in a number of basic textbooks in international trade and has influenced subsequent research not only in international trade but also in such diverse areas as regional economics.

In the 1980s, Michihiro started working on dynamics, in both macroeconomics and international finance. Perhaps most notable in this area is his paper on endogenous

growth, "Human Capital and Endogenous Economic Growth," which appeared in this journal in 1991. This work represents one of the earliest papers on endogenous growth theory, on which very many papers have been written since. Subsequently, he has studied increasing returns to scale (Ohyama, 1997) and focused on the same issue in his Presidential Address in the 1998 Japanese Economic Association Meeting (Ohyama, 1999).

The papers collected in this special issue represent state-of-the-art research on topics that Michihiro has worked on. As Michihiro's work is diverse, the papers below address diverse topics in international trade and development. They can, however, be classified into four areas: **1** Political economics of international and regional economies; **2** economic policies on trade and development; **3** endogenous growth; **4** positive analysis of international trade.

The first two papers by Wilfred Ethier and Arye Hillman are concerned with the political economy of international economics. This has been a major research interest of Michihiro, as is shown not only in his treatment of customs unions in his 1972 paper but also in later studies such as [28].

Ethier's paper treats a trade agreement as an incomplete contract and addresses the significance of a dispute settlement procedure, either informal or as stipulated in the GATT and WTO. It characterizes the settlement of a dispute between the governments of potential complainant and potential defendant countries with respect to negotiators' preferences over returns between a period in which a dispute settlement procedure is proceeding and that period after it has run its course. He demonstrates that if negotiators attach enough importance to the pre-settlement period, the optimal trade agreement will likely induce the defendant country to abide by the ruling resulting from the dispute settlement procedure.

Hillman formulates models of rent seeking for democracies and autocracies and relates them to international jurisdiction boundaries. In the modern world economy, jurisdictional boundaries provide less clear policy discretion. Despite this, economic barriers remain, and economic liberalization varies across countries, for example, between high-income democracies and low-income autocracies. Hillman examines the source of difference between democratic and autocratic institutions in amenability and willingness to liberalize, which indicate the consequences to be expected when the institutions of democracy replace autocracy.

Starting with the 1972 paper, a large number of Michihiro's papers addressed the effects of economic policies on international trade and development (see, [2], [6], [7], and [11], for example). The third, fourth, and fifth papers of this issue are concerned with this topic.

Masahiro Endoh and Koiichi Hamada re-examine the Lerner paradox and the Metzler paradox in a general many-good model. They present conditions under which, given that the economy is in free trade equilibrium initially, the Metzler paradox can be precluded. They are: (1) The Slutsky matrix is invertible for world demand, and individual countries' matrices are similar to one another; (2) goods are gross substitutes in world demand.

Jakrapong Uchupalanun and Henry Wan investigate the effects of economic growth in a large developing economy on the world economy. For this purpose, the paper extends the factor-content model of international trade in such a way that technology and preferences can differ across countries. It demonstrates that rapid growth in very large economies, such as India and China, may make the world economic system fundamentally unstable. They conclude that in order to avoid financial crises under external shocks, goodwill, prudence, and foresight in all nations are necessary.

Murray Kemp investigates the effect of subsidization of child-rearing on economic growth. Subsidization has traditionally been justified by the presence of an aging population and a historical precommitment to pay-as-you-go methods of financing welfare programs. Kemp reexamines whether subsidization may be justifiable without such a factor.

As discussed above, Michihiro was one of the first economists to realize the importance of endogenizing economic growth and increasing returns (see [20]). Since then, research on endogenous growth has been extended into many directions. One important new development is to incorporate externalities in a dynamic economic model. Kazuo Nishimura and Alain Venditti are concerned with this topic. They examine the role of the elasticity of capital-labor substitution on the local determinacy properties of the steady state in a two-sector economy with CES technologies and sector-specific externalities. The paper demonstrates that a variety of combinations of production functions with externalities may cause indeterminacy of equilibria.

Toru Kikuchi and Koji Shimomura endogenize time preferences in a dynamic two-country trade model with two factors and two goods. The paper examines the dynamic effect of an international transfer of technology from one country to the other. It demonstrates that the dynamic effect of such a change can be critically different from the static effect in the standard Heckscher-Ohlin model.

The last two papers concern positive aspects of international trade. In this area, Michihiro has also made important contributions on the transfer problem ([4] and [8]) and the determination of trade patterns ([18]).

Ronald Jones studies the determination of trade patterns in a Ricardian model and factor price equalization with many factors. By using commodity and factor triangles, Jones provides very clear explanations for the famous treatments of comparative advantage and factor price equalization by Lionel McKenzie and Jones, both of whom have significantly influenced Michihiro's research.

Makoto Yano and Fumio Dei are concerned with dumping in the presence of network externalities, which are present in many real-world cases of dumping. Constructing a new model of network externalities, Yano and Dei demonstrate that a foreign firm introducing a new product to the home market may set its price below the marginal cost so as to benefit from the creation of network externalities. This establishes what may be called marginal cost dumping.

This volume contains a selection of papers on topics dear to Michiro by economists who know him well. We hope that it will well celebrate an individual who has contributed much to international economics, to economics in Japan, and to the Rochester tradition.

### Major English Publications of Michihiro Ohyama

- [1] "On the Stability of Generalized Metzlerian Systems," *Review of Economic Studies*, Vol. 39(2), 1972, pp. 193–203.
- [2] "Trade and Welfare in General Equilibrium," *Keio Economic Studies*, Vol. 9, 1972, pp. 37–73. Reprinted in J. P. Neary ed., *International Trade (The International library of Critical Writings in Economics 59)*, An Elgar Reference Collection, 1995. pp. 109–145.
- [3] "Domestic Distortions and the Theory of Tariffs," *Keio Economic Studies*, Vol. 9, 1972, pp. 1–13. Reprinted in J. P. Neary ed., *International Trade (The International library of Critical Writings in Economics 59)*, An Elgar Reference Collection, 1995, 521–534.
- [4] "Tariffs and the Transfer Problem," *Keio Economic Studies*, Vol. 11, No. 1, 1974, pp. 29–45.
- [5] "Reconsideration of Some Paradoxes in the Theory of Optimal Foreign Investment," *Economic Record (The Journal of the Economic Society of Australia and New Zealand)*, Vol. 54, No. 147, 1978, pp. 346–353.
- [6] "On the Sharing of Trade Gains by Resource-poor and Resource-rich Countries" (with Murray C. Kemp), *Journal of International Economics*, Vol. 8, 1978, pp. 92–115.
- [7] "Interindustry Flows, Non-traded Intermediate Goods and the Theory of Effective Protection - A general equilibrium analysis," (with Katsuhiko Suzuki), *Journal of International Economics*, Vol. 10, 1980, pp. 567–578.
- [8] "On the Orthodox Presumption for the Transfer Problem," *Keio Economic Studies*, Vol. 18, No. 1, 1981. pp. 15–24.
- [9] "Money as a Means of Payment and Stability in General Equilibrium," *Keio Economic Studies*, Vol. 19, No. 1, 1982. pp. 39–56.
- [10] "Foreign Price Disturbances and the Intersectoral Adjustment in a Small Open Economy Under Fixed and Flexible Exchange Rates," in K. Jungenfelt and D. Hague eds., *Structural Adjustment in Developed Open Economies*, Macmillan, 1985, pp. 158–178.
- [11] "Protection and Factor Mobility," *Keio Economic Studies*, Vol. 23, No. 2, 1986, pp. 57–60.

- [12] "Unemployment and Inflation: Natural Wage Rate Hypothesis," *Keio Economic Studies*, Vol. 24, No. 2, 1987, pp. 11–26.
- [13] "Predictive and Imitative Expectations in Macro-dynamic Theories," *Keio Economic Studies*, Vol. 25, No. 2, 1988, pp. 1–17.
- [14] "Balance of Payments Adjustment under Price Rigidity," in R. Sato and T. Negishi (eds.), *Developments in Japanese Economics*, Academic Press. pp. 31–42, 1989.
- [15] "Bargaining with Differential Skills," *Keio Economic Studies*, Vol. 26, No. 2, 1989, pp. 1–4.
- [16] "On the Stability Properties of the Long-run Stationary Equilibrium in Macro-dynamic Models Under Perfect Foresight and Static Expectations," *Economics Letters* 31, 1989, pp. 1–4.
- [17] "Structure and Growth of an Open Dual Economy: Examining Industrial Policy," *The Developing Economies*, Vol. 27, No. 4, 1989, pp. 312–330.
- [18] "Factor Endowments and the Pattern of Commodity and Factor Trade," *Keio Economic Studies*, Vol. 26, No. 1, 1989, pp. 19–29.
- [19] "Economic Growth and the Balance of Trade," *Journal of the Japanese and International Economies*, Vol. 4, 1990, pp. 292–308.
- [20] "Human Capital and Endogenous Economic Growth," *Keio Economic Studies*, Vol. 28, No. 1, 1991, pp. 1–14.
- [21] "Firms, Entry and Hysteresis in the Heckscher-Ohlin-Samuelson Model of Production and Trade," in W. J. Ethier, E. Helpman and J. P. Neary eds., *Trade, Policy and Dynamics in International Trade, Essays in Honor of Ronald W. Jones*, 1993, pp. 107–128.
- [22] "International Trade and Work Efforts," in H. Herberg and N. V. Long eds., *Trade, Welfare and Economic Policies, Essays in Honor of Murray C. Kemp*, University of Michigan Press, pp. 113–119, 1993.
- [23] "Endogenous Dualistic Structure, Marshallian Externalities, and Industrialization," (with Yoshihiko Fukushima), in Chang and S. Katayama (eds.), *Imperfect Competition in International Trade*, Kluwer Academic Publishers, 1995.
- [24] "Technology Choice, Overtaking and Comparative Advantage," (with R. W. Jones), *Review of International Economics*, Vol. 3(2), 1995. pp. 224–234.
- [25] "Entry and Exit of Firms and Underemployment Equilibrium," *Metroeconomica*, Vol. 47, 1996, pp. 148–178.
- [26] "Monopolistic Competition, Increasing Returns and International Coordination of Entry Policy," *Pacific Economic Review*, Vol. 2, 1997, pp. 197–209.
- [27] "Market, Trade and Welfare in General Equilibrium," *Japanese Economic Review*, Vol. 50, 1999, pp. 1–24.

- [28] “International Adjustment under Capital Mobility,” in R. Sato et al eds., *Global Competition and Integration*, Kluwer Academic Publishers, 1999, pp. 329–354.
- [29] “Investment for Survival,” in T. Negishi et al eds., *Economic theory, Dynamic and Markets: essays in Honor of Ryuzo Sato* (Research Monographs in Japan-US business and Economics), Kluwer and Academic Publishers, 2001, pp. 379–390.
- [30] “The Economic Significance of the GATT/WTO Rules,” in A. D. Woodland ed., *Economic Theory and International Trade*, London: Edward Elgar, pp. 71–85, 2002.
- [31] “Cooperation Failure among Consumers and the Keynesian Equilibrium,” (with Hisao Nagata), Keio Economic Society DP No. 02–3, 2002.
- [32] “Effective Demand and National Income: A Microeconomics of the IS-LM Analysis and Its applications to the Stagnation of the Stagnation of the Japanese Economy,” *Keio Economic Studies*, Vol. 41, 2004, pp. 1–23.
- [33] “The Mundell-Fleming Model Revisited: A Microeconomics,” mimeo., revised 2006.
- [34] “Free Trade Agreements and Economic Welfare: Beyond the Kemp-Wan Theorem,” KUMQRP DP2003–11, 2004.
- [35] “Balance of Payment Adjustment under Capital Mobility,” in S. Katayama and K. Miyagiwa, *New Development in International Trade: Theoretical and Empirical Investigations*, Research Institute for Economics and Business Administration, Kobe University, 2004.
- [36] “The Role of the WTO in the World Economy,” mimeo., 2005.