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## INTRODUCTION

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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 Michihoro has worked on. As Michihoro'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 Michihoro, 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 Michihoro'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

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