

Title	英文抄録
Sub Title	
Author	
Publisher	慶應義塾経済学会
Publication year	1966
Jtitle	三田学会雑誌 (Keio journal of economics). Vol.59, No.4 (1966. 4) ,p.1- 3
JaLC DOI	
Abstract	
Notes	
Genre	
URL	https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AN00234610-19660401-0093

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Problem of North vs. South and Southeast Asian Economy

—An Approach from Policy Theory—

by Noboru Yamamoto

In the present paper, author tries to study the course of Southeast Asian economy by understanding the actual status of various countries in Southeast Asia in relation to the process of further development of North vs. South problem after the UNCTAD in spring 1964.

For this purpose the actual condition of the relationship between underdeveloped countries and developed countries is studied in section I. In section II, the difficulties for underdeveloped countries to form "The Third World" and thus "The Third Market" are illustrated. It is pointed out that problem of North vs. South now needs not the idealistic consideration but concrete analysis.

Based on the studies in preceding two sections, actual conditions of the present political instability in Southeast Asian region is discussed in section III. In section IV, we stress that in this region it is necessary to give a priority to the goal of establishing political stability than to economic stability. For this purpose, we explain the importance of the analysis from the point of view of "International Political Economy" rather than pure economic considerations for a while to analyse the problem of development in this region.

Thus in section V, we try an approach from theory of economic policy in order to see the development of Southeast Asian economy. We also explain the meanings of establishing "Economic Development Community" which is the author's cherished opinion. Also we advocate the role of Japan such as (1) technical co-operation, by strengthening the role of consultant for firms, (2) enforcement of vocational training plan for younger generation of the country.

Purchasing Power Parity Theory and Wage Level

by Yoko Sazanami

Despite of various criticism made on Purchasing Power Parity Theory on the determination of foreign exchange rate, many studies that compare per capita national income, wage rate or other economic standards of different countries usually use exchange rate as a conversion factor. They implicitly assume that foreign exchange rate represents purchasing power of two different currencies.

Recently, Bela Balassa made an interesting study which suggests that difference between purchasing power parity and exchange rate becomes larger when level of per capita national income in two countries differs. Also the remunerations paid to various services for similar kinds of labor show large deviation from exchange rate when they are converted by actual purchasing power parity.

The purpose of the present paper is to discuss the validity of purchasing power parity theory on the determination of foreign exchange rate and next to study the forces that are at work which make actual purchasing power of two currencies to differ from foreign exchange rate. The study pays special attention to the determination of industrial wage which plays the most important role in the determination of price in two countries.

International difference in average wage level reflects difference in natural resources, capital or technical skills. An empirical findings suggest that average wage level in various countries is proportional to their respective productivity of labor in each country, broadly measured by per capita national product. On the other hand present study found that inter-industrial wage difference within each country is less than proportional to productivity of labor in each industry. This reflects that productivity is not the only variable in determination of industrial wages but economic conditions such as prosperity, going wages and etc., the factors that are general to entire industry also are important variables. As mobility of labor between different countries is limited by locational factors, law or customs, equalization of wage between two countries takes place only in limited cases and it is generally determined within each country. Thus country with higher average

productivity tend to pay higher wages for similar labor than in country with lower average productivity. It makes price of domestic goods, particularly price of service to be higher in countries with higher productivity than in the lower productivity countries. This is also true for domestic goods that use highly labor intensive method. The difference in wages and price for similar kinds of labor and goods becomes larger when productivity in two countries differ substantially. This will make the purchasing power parity of two currencies to diverge from foreign exchange rate.