

Contents

1	Introduction	<i>page</i> 1
1.1	Overview of the Book	4
2	Tools and Tricks of the Trade, Part I: Duality Theory	8
2.1	Duality Theory and Supply	8
2.2	Duality Theory, Welfare, and Demand	16
2.3	Examples	25
3	The Trade Policy Debate	30
3.1	A Quick Overview of LDC Trade Policy	30
3.2	The Argument that Free Trade Is First-Best	34
3.3	Import Substitution vs. Export Promotion: The Main Elements of the Debate	62
3.4	Concluding Observations	96
4	Tools and Tricks of the Trade, Part II: Linear Differential Equations and Dynamic Optimization	98
4.1	Linear Differential Equations	98
4.2	Dynamic Optimization	113
4.3	An Extended Example	116
5	Underemployment, Underinvestment, and Optimal Trade Policy	124
5.1	The Model	125
5.2	A Sketch of the General Solution Procedure	131
5.3	Calibration of the Model	143
5.4	The Impact of Small Policy Changes at Free Trade	157
5.5	The Optimal Structure of Protection	170
5.6	The Full Optimal Solution	176
5.7	Incorporating Distributional/Poverty-Reduction Objectives into the Social Welfare Function	180
5.8	Further Remarks on the Nature of Optimal Trade Policy	183
5.9	Concluding Observations	184

vi	Contents	
6	Liberalization and the Transition Problem, Part I: Transitory Unemployment	187
6.1	The Problem of Transitory High Unemployment	188
6.2	Compensated Devaluation, Wage Rigidity, and Unemployment	193
6.3	Liberalization via Increased Quotas	217
6.4	Concluding Observations	230
7	Tools and Tricks of the Trade, Part III: The Dynamics of Temporary Shocks	233
7.1	The General Methodology	234
7.2	An Example	237
8	Liberalization and the Transition Problem, Part II: Credibility and the Balance of Payments	243
8.1	Temporary Liberalization and the Saving Distortion	244
8.2	A More General Analysis of Temporary Liberalization	247
8.3	Payments Deficits, Multiple Equilibria, and Self-Fulfilling Failures	261
8.4	Fiscal Deficits, Payments Deficits, and Credibility	281
8.5	Concluding Observations on the General Nature of the Transition Problem	291
9	Direct Foreign Investment, Economic Development, and Welfare	293
9.1	The Benchmark Model: Plain Vanilla Foreign Investment	295
9.2	Plain Vanilla Foreign Investment in the Domestic Manufacturing Sector	307
9.3	Plain Vanilla Foreign Investment in an Enclave	314
9.4	Plain Vanilla Foreign Investment in the Primary Export Sector	323
9.5	Export Requirements	325
9.6	Joint Ventures	331
9.7	Technology Transfer	357
9.8	Allowing for Capital Accumulation in Other Sectors	363
9.9	Summary and Guidelines for Policy	366
10	Suggestions for Future Research	370
	<i>References</i>	374
	<i>Index</i>	395