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## Book Review

[Book Review of] Dornbusch, Rudiger : Exchange rates and inflation, Cambridge, Mass., MIT Press, 1988

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licensing fees, but the values of production emerging through these investments or licensing which are taken into account. The principal method of investigation is regression analysis applied to the data for 1965 to 1975. The statistical analysis is, however, confined to the manufacturing sector. Moreover, locational advantages of home countries as determinants of DFI are ignored and it is assumed that the country differences are to result primarily from ownership advantages.

The book also includes a critical review of the recent literature on the main theme of the analysis. Further, the author surveys in a separate chapter the available information on trade, DFI and licensing in the selected five countries, and also problems of comparison due to varying definitions and measurements in these countries. Technical notes and sources of data are given in several appendices at the end of the book.

The author applies one model to all the selected countries in the sense that for each country the dependent variables are regressed on the same set of independent variables. Naturally, the results differ often from case to case. From this he rightly concludes that the country pattern of international competition differs widely. Nonetheless, he is convinced that these differences can be explained within the framework of a unified theoretical approach if it is flexible enough to provide for different contingencies influencing international competition. His statistical tests have uncovered several of such contingencies. R&D expenditure as an indicator of innovative capacity of a country, for example, is a significant determinant of the outward DFI of the USA but not of the UK or Japan and also not of the inward DFI in the USA. In contrast to DFI, research intensity proved in his tests to be a common determinant of exports of all the selected countries.

On the whole this is an interesting study on the operations of multinational firms and is very likely to prove useful for all those intending to do empirical research in this field. Clegg has considered not only trade or DFI or licensing as usually done in the literature but all of them together in one piece of work. However, the book suffers from some not very unusual problems of insufficient documentation of estimation methods and sources of data. For example, the production figures of DFI or licensing are in many cases estimated by the author (Appendix F), but anybody interested in replicating these estimates would find in this book little help with regard to output/capital ratios referred to there or about the procedure followed for estimating the licensed foreign production. For the sources of the tables, to quote another example, the author refers to the literature in the appendices. This makes it impossible to ascertain which data are selected from which sources.

Jamuna P. Agarwal

**Dornbusch, Rudiger**, *Exchange Rates and Inflation*. Cambridge, Mass., London 1988. The MIT Press. X, 475 pp.

The present volume collects 22 papers which Dornbusch published in the period 1973–87. The collection is organised into four parts.

Part I deals with exchange rate theory. It contains classic papers of the monetary approach to the balance of payments (such as “Devaluation, Money and Nontraded Goods”), the very influential “Expectations and Exchange Rate Dynamics” and the more recent “Exchange Rates and Prices” which focusses on pricing behaviour under oligopolistic competition.

Part II, labeled “Special Topics in Exchange Rate Economics”, brings together a variety of essays ranging from further theoretical analyses on topics such as exchange-rate risk or dual exchange markets, to empirical investigations on the black market for

dollars in Brazil and to an – updated – survey on the development of exchange-rate economics in the recent years.

Part III addresses the issue of equilibrium exchange rates. It contains Dornbusch's survey on purchasing power parity, his important article on comparative advantage in a Ricardian model (written together with S. Fischer and P. A. Samuelson), two analyses in a framework with nontraded goods and a recent publication on "Intergenerational and International Trade".

Part IV comprises five essays on inflation and stabilisation; three of these are more theoretically-oriented ("Consumption, Real Balances and the Hoarding Function"; "Inflation, Capital and Deficit Finance"; "Inflation Stabilisation and Capital Mobility") while the remaining two address empirical aspects of stabilisation policies in high-inflation countries with specific consideration of Germany in the 1920's and Latin America in the 1980's.

For the reader who is familiar with Dornbusch's writings it may be interesting to have a look at the comments which the author makes in the short introductions to the various parts. This holds for Dornbusch's criticism of the intertemporal approach which – at least in its current versions – is considered as quite sterile with respect to policy issues. It is also worth noting that Dornbusch substantially qualifies the case for dual exchange rates in his introduction to part II.

Summing-up, the book is an attractive offer for all those who appreciate to have the Dornbusch papers readily available in a handy form – and considering the substantial influence of the contained material there will be many an occasion to take the book from the shelf.

Harmen Lehment

**Hershlag, Zivi Y.**, *The Contemporary Turkish Economy*. London 1988. Routledge. XI, 178 pp. and index.

This is Hershlag's third book on the development of the Turkish economy. His earlier books, *Turkey: An Economy in Transition* (1958) and *Turkey: The Challenge of Growth* (1968), covered the period from the founding of the Republic in 1923 to the end of the 1960s. In this book, Hershlag focuses largely on the developments of the 1980s, emphasizing the complexity of the contemporary economic problems Turkey faces in the aftermath of the 12 September 1980 military intervention.

As a specialist in modern economic history and development economics, Hershlag once again shows his admirable and seasoned expertise on the Turkish economy. He demonstrates vividly the continuity of the major problems in the development of the post-Republic Turkish economy, in terms of especially the legacy of *devletcilik* (etatism) and the deeply entrenched bias toward autarky. He also argues that the socio-political identity crisis of Turkey, caught between the East and the West, continues despite M. Kemal Atatürk's reforms more than half a century ago and the many past and present efforts at Kemalist indoctrination. He concludes that "... Turkey has come a full circle with the 1980s facing a clash between the old and new, tradition and change, reaction and progress, resembling ... that of the early days of the Republic" (p. XI).

In the first three chapters, that review briefly the performance of the Turkish economy during the first six decades of the Republic, Hershlag provides the background for his analysis of the economic issues in the 1980s. I agree with his overall assessment that Turkey failed to realize fully its development potential by persisting in its etatist and inward orientation beyond the 1940s. Neither attempt at economic liberalism before the 1980s was successful. The first one in the 1920s was aborted by the Great Depression.