Editors' Preface to Macmillan Studies in Economics

The rapid growth of academic literature in the field of economics has posed serious problems for both students and teachers of the subject. The latter find it difficult to keep pace with more than a few areas of their subject, so that an inevitable trend towards specialism emerges. The student quickly loses perspective as the maze of theories and models grows and the discipline accommodates an increasing amount of quantitative techniques.

'Macmillan Studies in Economics' is a new series which sets out to provide the student with short, reasonably critical surveys of the developments within the various specialist areas of theoretical and applied economics. At the same time, the studies aim to form an integrated series so that, seen as a whole, they supply a balanced overview of the subject of economics. The emphasis in each study is upon recent work, but each topic will generally be placed in a historical context so that the reader may see the logical development of thought through time. Selected bibliographies are provided to guide readers to more extensive works. Each study aims at a brief treatment of the salient problems in order to avoid clouding the issues in detailed argument. Nonetheless, the texts are largely self-contained, and presume only that the student has some knowledge of elementary micro-economics and macro-economics.

Mathematical exposition has been adopted only where necessary. Some recent developments in economics are not readily comprehensible without some mathematics and statistics, and quantitative approaches also serve to shorten what would otherwise be lengthy and involved arguments. Where authors have found it necessary to introduce mathematical techniques, these techniques have been kept to a minimum. The emphasis is upon the economics, and not upon the quantitative methods. Later studies in the series will provide analyses of the links between quantitative methods, in particular econometrics, and economic analysis.

MACMILLAN STUDIES IN ECONOMICS

General Editors: D. C. ROWAN and G. R. FISHER

Executive Editor: D. W. PEARCE

Published

John Burton: WAGE INFLATION
Miles Fleming: MONETARY THEORY
C. J. Hawkins and D. W. Pearce: CAPITAL INVESTMENT APPRAISAL
C. J. Hawkins: THEORY OF THE FIRM
David F. Heathfield: PRODUCTION FUNCTIONS
Dudley Jackson: POVERTY
P. N. Junankar: INVESTMENT: THEORIES AND EVIDENCE
J. E. King: LABOUR ECONOMICS
J. A. Kregel: THE THEORY OF ECONOMIC GROWTH
George McKenzie: THE MONETARY THEORY OF INTERNATIONAL TRADE
S. K. Nath: A PERSPECTIVE OF WELFARE ECONOMICS
D. W. Pearce: COST-BENEFIT ANALYSIS
Maurice Peston: PUBLIC GOODS AND THE PUBLIC SECTOR
David Robertson: INTERNATIONAL TRADE POLICY
Charles K. Rowley: ANTITRUST AND ECONOMIC EFFICIENCY
C. H. Sharp: TRANSPORT ECONOMICS
G. K. Shaw: FISCAL POLICY
R. Shone: THE PURE THEORY OF INTERNATIONAL TRADE
Frank J. B. Stilwell: REGIONAL ECONOMIC POLICY
John Vaizey: THE ECONOMICS OF EDUCATION
Peter A. Victor: ECONOMICS OF POLLUTION
Grahame Walshe: INTERNATIONAL MONETARY REFORM
E. Roy Weintraub: GENERAL EQUILIBRIUM THEORY

Forthcoming

G. Denton: ECONOMICS OF INDICATIVE PLANNING
J. A. Kregel: THEORY OF CAPITAL
Richard Lecomber: ECONOMIC GROWTH AND ENVIRONMENTAL QUALITY
D. Mayston: THE IDEA OF SOCIAL CHOICE
Simon Mohan: RADICAL ECONOMIC
B. Morgan: MONETARISM AND KEYNESIANISM
Christopher Nash: PUBLIC *v.* PRIVATE TRANSPORT
A. Peaker: BRITISH ECONOMIC GROWTH SINCE 1945
F. Pennance: HOUSING ECONOMICS
Nicholas Rau: TRADE CYCLES – THEORY AND EVIDENCE
M. Stabler: AGRICULTURAL ECONOMICS
E. Roy Weintraub: THE ECONOMICS OF CONFLICT AND CO-OPERATION
J. Wiseman: PRICING PROBLEMS OF THE NATIONALISED INDUSTRIES

The Monetary Theory of International Trade

GEORGE MCKENZIE

Lecturer in Economics, University of Southampton

Macmillan Education

© George McKenzie 1974

All rights reserved. No part of this publication may be reproduced or transmitted, in any form or by any means, without permission.

First published 1974 by
THE MACMILLAN PRESS LTD
London and Basingstoke
Associated companies in New York Dublin
Melbourne Johannesburg and Madras

SBN 333 12707 2

ISBN 978-1-349-01246-6 ISBN 978-1-349-01244-2 (eBook)
DOI 10.1007/978-1-349-01244-2

The paperback edition of this book is sold subject to the condition that it shall not, by way of trade or otherwise, be lent, resold, hired out, or otherwise circulated without the publisher's prior consent in any form of binding or cover other than that in which it is published and without a similar condition including this condition being imposed on the subsequent purchaser.

Contents

<i>Preface and Acknowledgements</i>	7
1 Introduction	9
2 Basic Assumptions and Relationships	13
3 The International Trade Offer Curve	17
4 Price Adjustments and Flexible Exchange Rates	25
5 Fixed Exchange Rates, The Gold Standard and The Quantity Theory of Money	33
6 International Trade Multipliers	39
7 Inventory Changes, Unemployment and Discretionary Adjustment Policies	45
8 Financial Institutions and the Foreign Exchange Market	53
9 Speculation, Hedging and Arbitrage	63
10 Capital Flows and International Adjustment	71
11 International Monetary Reform	81
<i>Bibliography</i>	91

Preface and Acknowledgements

This book represents extracts from lecture notes developed over the past seven years and delivered to students at Washington University, St Louis from 1966 to 1970 and at the University of Southampton over the past three years. Because of space considerations, I have been faced with the task of deciding which topics to include and which to exclude. From past experience I have found that it is best to develop a few subjects in some depth rather than to provide a cursory summary of a large, often complex body of knowledge. This is the approach adopted here. The book is thus not a complete survey of international monetary theory, although readers will find references to more than eighty relevant books and articles.

I would like to express my gratitude for the detailed comments provided by David Rowan and David Pearce of the University of Southampton, and by Ronald Shone of the University of Sheffield. Several Southampton students also offered helpful criticisms. I would also like to thank Mrs Jennie Burrow for typing the manuscript with speed and accuracy. Any omissions, inaccuracies or obscurities that remain are entirely my responsibility.

G. M.