

# Advances in Japanese Business and Economics 2

For further volumes:

<http://www.springer.com/series/11682>

# Advances in Japanese Business and Economics

Editor in Chief:  
RYUZO SATO

C.V. Starr Professor Emeritus of Economics, Stern School of Business,  
New York University

Managing Editors:

HAJIME HORI, Professor Emeritus, Tohoku University  
KAZUO MINO, Professor, Kyoto University  
MARIKO FUJII, Professor, The University of Tokyo

Editorial Board Members:

**TAKAHIRO FUJIMOTO**  
Professor, The University of Tokyo

**YUZO HONDA**  
Professor Emeritus, Osaka University  
Professor, Kansai University

**TOSHIHIRO IHORI**  
Professor, The University of Tokyo

**TAKENORI INOKI**  
Professor Emeritus, Osaka University  
Special University Professor,  
Aoyama Gakuin University

**JOTA ISHIKAWA**  
Professor, Hitotsubashi University

**KUNIO ITO**  
Professor, Hitotsubashi University

**KATSUHITO IWAI**  
Professor Emeritus, The University of Tokyo  
Visiting Professor, International  
Christian University

**MASAHIRO MATSUSHITA**  
Professor Emeritus, Aoyama Gakuin  
University

**TAKASHI NEGISHI**  
Professor Emeritus, The University of Tokyo  
The Japan Academy

**KIYOHICO NISHIMURA**  
Professor, The University of Tokyo

**TETSUJI OKAZAKI**  
Professor, The University of Tokyo

**YOSHIYASU ONO**  
Professor, Osaka University

**KOTARO SUZUMURA**  
Professor Emeritus, Hitotsubashi University  
The Japan Academy

**HIROSHI YOSHIKAWA**  
Professor, The University of Tokyo

Advances in Japanese Business and Economics showcases the research of Japanese scholars. Published in English, the series highlights for a global readership the unique perspectives of Japan's most distinguished and emerging scholars of business and economics. It covers research of either theoretical or empirical nature, in both authored and edited volumes, regardless of the sub-discipline or geographical coverage, including, but not limited to, such topics as macroeconomics, microeconomics, industrial relations, innovation, regional development, entrepreneurship, international trade, globalization, financial markets, technology management, and business strategy. At the same time, as a series of volumes written by Japanese scholars, it includes research on the issues of the Japanese economy, industry, management practice and policy, such as the economic policies and business innovations before and after the Japanese "bubble" burst in the 1990s.

Overseen by a panel of renowned scholars led by Editor-in-Chief Professor Ryuzo Sato, the series endeavors to overcome a historical deficit in the dissemination of Japanese economic theory, research methodology, and analysis. The volumes in the series contribute not only to a deeper understanding of Japanese business and economics but to revealing underlying universal principles.

Takashi Negishi

# Developments of International Trade Theory

Second Enhanced Edition

 Springer

Takashi Negishi  
Member  
The Japan Academy  
Japan

Professor Emeritus  
The University of Tokyo  
Japan

ISSN 2197-8859

ISSN 2197-8867 (electronic)

ISBN 978-4-431-54432-6

ISBN 978-4-431-54433-3 (eBook)

DOI 10.1007/978-4-431-54433-3

Springer Tokyo Heidelberg New York Dordrecht London

© Springer Japan 2001, 2014

This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed. Exempted from this legal reservation are brief excerpts in connection with reviews or scholarly analysis or material supplied specifically for the purpose of being entered and executed on a computer system, for exclusive use by the purchaser of the work. Duplication of this publication or parts thereof is permitted only under the provisions of the Copyright Law of the Publisher's location, in its current version, and permission for use must always be obtained from Springer. Permissions for use may be obtained through RightsLink at the Copyright Clearance Center. Violations are liable to prosecution under the respective Copyright Law.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

While the advice and information in this book are believed to be true and accurate at the date of publication, neither the authors nor the editors nor the publisher can accept any legal responsibility for any errors or omissions that may be made. The publisher makes no warranty, express or implied, with respect to the material contained herein.

Printed on acid-free paper

Springer is part of Springer Science+Business Media ([www.springer.com](http://www.springer.com))

*To my dear Aiko, for our golden wedding anniversary.*



# Preface

This book is based on my lectures on international trade in 1993–2000 at the School of International Politics, Economics and Business, Aoyama Gakuin University, Tokyo. According to the late Professor M. Bronfenbrenner, who did the same lectures in 1982–1990, this school was established in 1982 based on the late Chancellor Kinjiro Ohki's vision of a new college of foreign studies, whose graduates should be competent simultaneously in the English language, oral and written, and in some branch of international affairs, international politics, international economics, or international business. Aoyama Gakuin University, which was established in 1949, originated in schools started in 1874 and 1879 by missionaries sent to Japan by the Methodist Church of America to propagate Christianity through education.

To generate more interest in the subject, I started with the exposition of the historical developments of the trade theory in Part I. Then, Part II deals with the basic neoclassical theory of international trade and some of the more recent developments. Since the school offered other lectures on international finance, I could concentrate on the nonmonetary real problems of the international economics. Some of the exercises given in each chapter and the appendices attached to several chapters deal with more advanced graduate-level materials and some new research results. So as to encourage students, most of whom were Japanese, I particularly tried to discuss some of the recent contributions made by Japanese scholars.

It is my pleasant duty to thank, firstly, the board of editors, Professors Ryuzo Sato, Rama V. Ramachandran, and Kazuo Mino, for their decision to include this book in the series of Research Monographs in Japan–US Business and Economics, and secondly, the Aoyama Gakuin University Society of International Politics, Economics, and Business, headed by Professor Shigemi Honda, for the grant which made the publication of the book possible.

January 2001

Takashi Negishi





## Preface to the Second Enhanced Edition

It is my pleasure to be able to publish the second enhanced edition of this book. The first edition was published in 2001 by Kluwer Academic Publishers. Taking advantage of this new edition, I decided to add the new Part III to the original two parts, which is entitled as Historical Appendix and consists of two articles of mine, “Adam Smith and Disequilibrium Economic Theory” and “Complete Specialization in Classical Economics.” The first article was originally published in *The Adam Smith Review* (2004), and the second in *Economic Theory and Economic Thought* (edited by P. A. Samuelson and others (2010)). I am highly grateful to the editors of these literatures for their permission to include these articles of mine into this book.

It is expected that readers who mastered Part I and Part II of this book can enjoy reading these professional literature in Part III.

Tokyo, Japan  
June 2013

Takashi Negishi



# Contents

## Part I Historical Progress of International Trade Theory

<b>1</b>	<b>Mercantilism</b> .....	3
1.1	Problems .....	7
	Bibliography .....	8
<b>2</b>	<b>Specie-Flow Mechanism</b> .....	9
2.1	Problems .....	13
	Bibliography .....	13
<b>3</b>	<b>Adam Smith and Division of Labor</b> .....	15
3.1	Problem.....	20
	Bibliography .....	20
<b>4</b>	<b>Ricardo and Comparative Costs</b> .....	21
4.1	Problems .....	26
4.2	Appendix: Kojima on Ricardo .....	27
	Bibliography .....	32
<b>5</b>	<b>J. S. Mill and Reciprocal Demand</b> .....	33
5.1	Problems .....	37
5.2	Appendix: Mill and Thornton .....	38
5.3	Problems for Appendix .....	42
	Bibliography .....	42
<b>6</b>	<b>Mill and Infant Industry</b> .....	43
6.1	Problems .....	48
	Bibliography .....	48
<b>7</b>	<b>Marx and International Exploitation</b> .....	51
7.1	Problems .....	58
	Bibliography .....	59

<b>8</b>	<b>Marshall and Offer Curve</b> .....	61
	8.1 Problems .....	66
	Bibliography .....	66
 <b>Part II Modern Theory and Recent Developments of International Trade</b>		
<b>9</b>	<b>Theory of Production</b> .....	69
	9.1 Problems .....	73
	Bibliography .....	74
<b>10</b>	<b>Heckscher–Ohlin Theory (1)</b> .....	75
	10.1 Problem.....	80
	Bibliography .....	80
<b>11</b>	<b>Heckscher–Ohlin Theory (2)</b> .....	81
	11.1 Problems .....	85
	Bibliography .....	86
<b>12</b>	<b>Leontief Paradox</b> .....	87
	12.1 Problems .....	91
	Bibliography .....	91
<b>13</b>	<b>Domestic Distortions</b> .....	93
	13.1 Problems .....	97
	Bibliography .....	98
<b>14</b>	<b>Export Promotion and Welfare</b> .....	99
	14.1 Problems .....	103
	Bibliography .....	103
<b>15</b>	<b>Oligopoly</b> .....	105
	15.1 Problems .....	108
	15.2 Appendix: Tariffs Versus Quotas .....	108
	15.3 Problems for Appendix .....	114
	Bibliography .....	114
<b>16</b>	<b>Immiserizing Growth</b> .....	115
	16.1 Problems .....	119
	16.2 Appendix: Second Best Problems.....	119
	Bibliography .....	126
<b>17</b>	<b>External Economies</b> .....	127
	17.1 Problem.....	131
	17.2 Appendix: Internal Economies .....	131
	Bibliography .....	136

**Part III Historical Appendix**

**18 Adam Smith and Disequilibrium Economic Theory**..... 141

    18.1 Introduction ..... 141

    18.2 Equilibrium Theory and Disequilibrium Theory ..... 142

    18.3 Smith’s Theory of International Trade ..... 143

    18.4 The Division of Labor and the Extent of the Market ..... 146

    18.5 Summary and Conclusion ..... 148

    Bibliography ..... 149

**19 Complete Specialization in Classical Economics** ..... 151

    19.1 Interpretations of Specialization ..... 151

    19.2 Ricardian Theory of Competitive Advantage..... 151

    19.3 Ricardian Model of the Economy ..... 152

    19.4 Ricardo’s Theory of Gains from Foreign Trade ..... 154

    19.5 Mill’s Assumption of the Single Factor of Production ..... 155

    19.6 The Two-Country, Two-Good Case ..... 156

    19.7 Bastable on Reciprocal Demand ..... 158

    19.8 Thornton on Supply and Demand Theory ..... 159

    19.9 Pareto on Complete Specialization ..... 161

    19.10 Pareto’s Two-Country, Two-Good, One-Factor (Labor) Model .. 162

    Bibliography ..... 164

**About the Author**..... 167

**Name Index** ..... 169

**Subject Index** ..... 171