

Book Review

Lectures on International Trade, 2nd edition

Jagdish Bhagwati, Arvind Panagariya, and T.N. Srinivasan
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For many years the first edition of this book was an essential part of a graduate level course in international trade. Used in conjunction with journal articles and working papers the original edition greatly eased the task of exposing students to the bulk of trade theory within the confines of a single semester course. Over time, however, the original edition had become woefully out of date. The new edition of this classic text represents a substantial effort to update the book and return it to its place on the typical graduate reading list.

The new edition still offers systematic treatments of the standard models of trade, welfare implications of trade, and commercial policy under perfect competition. Extensions to these models such as the continuum of goods Ricardian model are also included. Importantly, the revised edition also contains nine new chapters that cover key topics such as monopolistic competition, imperfect competition, endogenous growth theory, recent empirical analyses of the Heckscher-Ohlin model, and "new" commercial policies such as voluntary export restraints and antidumping actions. One measure of the significance of the revisions is that the new edition is almost 50% longer than the original. The addition of a third well-known trade economist, Arvind Panagariya, is an additional signal that new edition is a not a minor update.

Perhaps the most obvious shortcoming of the original edition was its failure to include any discussion of the "new trade" theory. This deficiency is resolved in the new edition. For instance, the now standard monopolistic competition model of Paul Krugman receives a thorough treatment. In this model economies of scale and "love of variety" preferences lead identical countries to benefit by trading. I appreciated the clear statement of key assumptions, including the key assumption of symmetry. The authors offer a nice mix of mathematical and graphical treatments of the model. Excellent discussions of extensions and recent applications of the basic model (e.g., economic geography) are also provided.

Strategic trade theory was another major literature that the original edition neglected. In terms of the sheer number of papers that followed from James Brander and Barbara Spencer's original insight, strategic trade theory was arguably the most important innovation during the 1980s. While the magnitude of the literature makes any summary discussion challenging, the text clearly falls short. Numerous important articles are neither discussed nor cited, including several of the seminal early papers by Brander and Spencer, Avinash Dixit and Gene Grossman! More recent contributions are also not mentioned. For instance, the failure to incorporate Giovanni Maggi's superb model (which provides a deep insight into the sensitivity of basic model's policy recommendation) into the discussion is a significant lapse. Readers interested in a

comprehensive summary of the literature will instead need to consult Brander's chapter in the *Handbook of Economics*.

Endogenous growth theory is also another important literature that has emerged since the original edition was written. In a new chapter, a simple model of innovation-based growth is developed. For graduate students interested in the broad insights of this literature (i.e., emphasis on steady-states, important of level and growth effects), this presentation is fine. But, as was the case with the strategic trade chapter, the discussion lacks sufficient breadth to be truly useful for students interested in applying the theory into their own research. Readers would benefit from instead consulting Grossman and Helpman's chapter in the *Handbook of Economics*.

These criticisms aside, the book is far more satisfying than the original and is still the best textbook supplement for a graduate course in international trade. However, despite the magnitude of new edition's revisions, too many important topics are neglected for this edition to be completely satisfying. Is this criticism fair? In the preface the authors promise of "a systematic treatment of all the important developments that have taken place in international trade theory since the publication of the original edition" (p. xi). It is clear that the book does not deliver on this promise. In fact, to some extent the new and old editions both suffer from the same problem --- a somewhat dated perspective on the literature. Many important published research topics are neglected. For instance (to name a few), political-economy models of trade policy, repeated game approaches to trade negotiations, and structural estimation of the effects of trade policy are all ignored. With luck, the third edition will soon incorporate these important developments.

Bibliography

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Handbook of international economics Volume 3, edited by Gene M. Grossman and Kenneth Rogoff (Amsterdam: Elsevier Science Publishers B.V., 1995).

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