

## Preface

The development of international trade theory has created a wide array of different theories, concepts and results. Nevertheless, trade theory has been split between partial and conflicting representations of international economic interactions. Diverse trade models have co-existed but not in a structured relationship with each other. Economic students are introduced to international economic interactions with severally incompatible theories in the same course. In order to overcome incoherence among multiple theories, we need a general theoretical framework in a unified manner to draw together all of the disparate branches of trade theory into a single organized system of knowledge.

This book provides a powerful – but easy to operate - engine of analysis that sheds light not only on trade theory per se, but on many other dimensions that interact with trade, including inequality, saving propensities, education, research policy, and knowledge. Building and analyzing various tractable and flexible models within a compact whole, the book helps the reader to visualize economic life as an endless succession of physical capital accumulation, human capital accumulation, innovation wrought by competition, monopoly and government intervention. The book starts with the traditional static trade theories. Then, it develops dynamic models with capital and knowledge under perfect competition and/or monopolistic competition. The uniqueness of the book is about modeling trade dynamics. We differ from the traditional trade theories in that we introduce a novel economic mechanism to determine consumers' decision on consumption and savings. Through this novel approach, the book attempts to construct an international trade theory which integrates economic growth, monetary, and value theories by a general-equilibrium analysis of the commodity and bonds markets over time and space. Economic dynamic theory has been dominated by the two – the Solow and Ramsey – analytical frameworks in the last five decades. The two modeling frameworks have co-existed in “harmony” mainly because one cannot effectively replace the other. The Solow model is empirically friendly and easy to analyze but lacks sound behavioral mechanism. The Ramsey framework is neither theoretically sound nor empirically supported, even though it has recently become the dominant framework in economic dynamics. Moreover, a model based on the Ramsey

approach tends to become analytically intractable when economic issues related heterogeneous households, or multiple sectors, or urban structure, inter-regional, or international interactions are introduced. The novel utility maximization approach helps us to solve the problem that there is no profound rational decision mechanism for consumers in the Solow model and avoids the complication that the Ramsey growth theory brings about. Through numerous examples, this book demonstrates that the novel utility functions help us to analytically study many trade problems in a consistent manner.

This book studies trade issues in a comprehensive manner. It is largely based on Zhang's previous book (Zhang, 2000). This book differs from the previous one in many important aspects, providing more general results, simulating many models and introducing traditional trade theories and the new trade theory more comprehensively.

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