
Preface

This textbook contains introductory and rather advanced topics on growth and international trade from the Diamond-type overlapping generations perspective. Part I, “Growth”, comprises mainly, although not exclusively, introductory material. This is also true for Part II, “International Trade”, but to a much lesser extent. In Part I, the unified analytical approach of Diamond’s (1965) overlapping generations model to neoclassical (“old”) and “new” growth theories (R&D and human capital approaches) figures prominently. Chapters 2 and 3 exhibit the basic overlapping generations model of the world economy, its intertemporal equilibrium dynamics and steady state growth. Discussion of public debt in chapter 4 and economic growth under exogenous and endogenous conditions of technological change in chapters 5 and 6 as well as a description of the factors (religion included) determining human capital formation in chapter 7 are both expected to attract the interest of the reader. Given the present economic climate, the chapter concluding Part I, on “Growth with Bubbles”, will likely be particularly interesting. The first three chapters in Part II are devoted to the presentation of an intertemporal equilibrium version of neoclassical (Heckscher-Ohlin) trade theory, including a neoclassical model on globalization. Further two chapters focus on international trade under imperfect competition and on product differentiation under exogenous and endogenous technological change. The remaining five chapters of Part II contain recent research results obtained by the first author in cooperation with both Birgit Bednar-Friedl and the second author. The first two of these chapters deal with the existence of limits to national debt and international effects of debt reduction in advanced countries. The international impact of unilateral climate policy on capital accumulation and welfare and the determination of an optimum climate policy from a unilateral and a multilateral perspective are investigated in the next two chapters. The final chapter in Part II looks at the internal debt mechanics leading to the recent crisis in the euro zone.

As indicated by the book’s subtitle, it was the authors’ intention to introduce the concept of the overlapping generations approach to growth and international trade to a much wider audience. The approach taken is relatively introductory in that utility and production functions are specified in such a way that any interested

reader should be capable of deriving solutions to the intertemporal general equilibria described. However, our primary intention is not simply to hone skills in general equilibrium solutions but rather to improve the reader's ability to grasp the analytical significance of the much more advanced dynamic general equilibrium models (on growth and international trade) published in leading journals.

This book represents a thoroughly revised and substantially extended version of "Wachstum und Außenhandel", co-authored by Ronald Wendner and first published in German in 1997 and then as a second edition in 1999. As mentioned above, the last four chapters of Part II are based on the first author's previously published work (in cooperation with Birgit Bednar-Friedl) while Chaps. 8 and 15 are based on joint work of the present authors. While both authors vouch for the accuracy of all the chapters, the major onus of responsibility rests clearly with the first author.

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Approach

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