denominated in the national currency of the member country which happens at any time to own them. To expand such liquid owned reserves Sir Roy proposes that there should be an initial substantial increase in I.M.F. quotas, followed by gradual annual increases to keep up with the expansion of international transactions. This straightforward way of increasing liquid reserves treats all countries—developed and underdeveloped, rich and poor—alike; they would all have a *pro rata* increase in international liquidity. In this it is to be greatly preferred to proposals which in effect provide additional liquidity in the first instance only to a few rich key-currency countries.

Sir Roy would in addition endow the I.M.F. with powers to make special conditional *ad hoc* loans to countries in special balance-of-payments difficulties. He adds also an ingenious set of proposals whereby the central monetary authorities of countries which wished to hold less of their reserves in the form of dollar or sterling balances than they do at present could deposit them with the I.M.F. in exchange for additional liquid deposits.

Sir Roy's proposals involve the minimum of change in existing institutions: no new unit of account or other special form of reserve is introduced; central banks remain free to hold reserves in the form of balances of key currencies if they so wish; liquidity is expanded through the established practice of all-round increases of quotas with the established institution, the I.M.F. But the basic minimum changes are made to turn the existing institution into a real straightforward controller of the total quantity (but not of the distribution) of international money. This is surely the sensible way to proceed.

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The Pure Theory of International Trade. By M. C. KEMP. (Englewood Cliffs, New Jersey: Prentice-Hall, 1964. Pp. 324.)

UNTIL now, the serious students of trade theory had to be guided carefully through literally dozens of diverse papers and some of Professor Meade's mathematical appendices before they could be considered to have acquired the necessary expertise. Professor Kemp has now produced a text-book which makes the lecturer's task considerably easier.

The book embraces both pure and monetary theories of trade. Four parts deal successively with pure theory's positive and welfare propositions, balance-of-payments theories and trade between countries with Keynesian underemployment. As one would expect from a theorist of such reputation, Professor Kemp's writing is distinguished by rigour and clarity; and, aside from being a generally excellent account of the subject, it contains a great deal of recent research by the author.

The habit of stating models and derivations of results clearly, somewhat novel in this area, makes this book invaluable for instruction. Professor

Kemp has also adopted another fresh and welcome approach. Rather than cover the bulk of the ground in the text, he relegates much material to a set of problems at the end of each chapter, with hints and/or solutions collected at the end of the book. This is stimulating for the better student. However, Professor Kemp (influenced perhaps excessively by the graduate students at M.I.T., where he first developed the book!) has left a very great deal by way of exercises. Indeed, the results of quite a few important and difficult papers have been treated this way, so that the net utility of the work is likely to be seriously, and unnecessarily, diminished unless the work is intended only for advanced students with a good grounding in some mathematical economics.

Another deficiency springs from this problem-oriented approach. Professor Kemp makes little attempt at relating the contents of his analysis to either current problems or the ways in which the analysis evolved over time. It is surprising, for example, that the Ricardian and Heckscher–Ohlin theories of comparative advantage are not even mentioned, whereas the properties of free trade equilibrium in the traditional two-country, two-commodity, two-factor model (which is mostly used for the analysis of pure theory) are treated at great length: anyone except the committed and zealous theorist, keen on solving problems, is likely to find this treatment somewhat desiccated!

The choice of the material for textual development and for problems left to the reader also raises a few doubts. It is inevitable that a prolific economist such as Professor Kemp would tend to attach rather greater weight to the areas where he has researched himself. But in a *text-book*, which is admittedly *selective*, this is a tendency which needs to be watched. Professor Kemp does not seem to have been altogether successful. For example, it is puzzling that Chapter 11, on gains from trade, makes only fleeting references to the work on customs-union theory and measurement of welfare, from both of which areas many insights have been gained, in the reviewer's judgment, into questions of trade and welfare. Nor do the references given make up for this neglect. It is also curious that the work of several writers on non-economic objectives and optimal or sub-optimal trade intervention, as for example on maximum-revenue tariffs, is left untouched or turned into problems (*e.g.*, 11.4 and 11.5 on p. 183) without indication of its significance or its relationship to other aspects of welfare theory or even reference to the original papers and sources from which the problem has been taken. In fact, in this chapter the significance of what has been omitted or perfunctorily dismissed seems to this reviewer to be substantially greater than that of the extensive material included in the text (which consists mostly of fairly straightforward extensions of Samuelson's classic proof of the gains from trade and which could instead have well been left to the students as problems). This impression gains a little strength when one notices that the criteria (implicitly) used by Professor Kemp for selecting material for detailed treatment or omitting it, and for assigning credits to those who have contributed to the subject over the last twenty years (*e.g.*, on p. 4 and in the readings scattered in the text) lead him all too frequently to underplay the contributions of Professors Meade, Haberler and Johnson which have led to so many significant advances in the subject.

Many of the reservations and criticisms voiced here are, however, to be put down to differences in emphasis, taste and judgment. Indeed, few writers of text-books will agree on the best way to unfold a subject in the classroom. There is little doubt that Professor Kemp's book will be widely considered an invaluable addition to the available text-books on advanced trade theory. Indeed, it represents the most significant contribution in this field in many years.

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Balance of Payments Equilibrium. By H. G. Georgiadis. (Pittsburgh, Pa.: University of Pittsburgh Press, 1965. Pp. 220. $7.00.)

The main purpose of Mr. Georgiadis' book appears to be to substitute " a set of empirical references in terms of which the conditions of equilibrium in the balance of payments can be identified and measured " (p. 16) in place of orthodox post-Keynesian conclusions on these matters. Nurkse's work on the conditions for balance-of-payments equilibrium is singled out, and we are told that the conditions specified therein are too few, in particular Nurkse has ignored the necessity for equilibrium in the financial market. Similarly we are told that Professor Meade's accommodating finance as a measure of balance-of-payments disequilibria is a " neat philosophical concept, but a tool of limited empirical use."

The specific model with reference to which this substitution is to be made is a " highly disaggregated macro-model " of the U.S. based on eight of the eleven sectors of the money flow accounts over the years 1949–56. Relationships are presented between sources of funds and uses of funds, and we are told that out of many tests made those chosen are those " which showed the greater statistical reliability, *i.e.*, the highest correlation " (p. 79). Now this procedure is really very arbitrary, and whatever else these relationships are, they are not necessarily behavioural relations as they are explicitly presented to be. This means that they are not useful for predictive purposes, in the way that Mr. Georgiadis uses them throughout Chapter IV. I shall illustrate this with respect to the treatment in this model of the rest of the world sector. Here the use of dollars is simply related to the source of dollars and this holds pretty well item by item: investment income paid to the United States is related to investment income paid by the United States; insurance benefits paid to the United States are related to insurance premiums paid by the United States. This procedure we are told " rests on a presumption that the total dollar exchange proceeds of the rest of the world