that the signs of many parameters in the ultimate equation are undetermined (see pp. 171–178). With regard to the whole book I have missed a chapter in which the findings of the various papers are summarized and the areas of future research are indicated.

In spite of the above criticism I think that the book meets the editor's objective to consider various approaches for incorporating endogenous exchange rates in macroeconomic models. In addition, the contributions give a first impression of the pros and cons of these methods in empirical analyses. In the *European Economic Review*, Vol 30, no. 1 (February, 1986) papers are published which contain some further results of the sensitivity of multi-country models for the different methodological approaches.

Eelke de Jong


In the preface of this book, the author makes clear that this textbook is intended to serve courses in monetary economics, advanced macroeconomics or macroeconomic policy. From the contents it is clear that the book is built up around the well-known IS-LM-AS model and starts with the closed economy, followed by an analysis of an open economy.

Starting from the quantity theory of money, it is concluded that the quantity of money has no influence on the magnitude of real variables. In reaching this conclusion, however, the importance of a frictionless economy is stressed. Only when information is freely available and adjustment processes can work quickly is the aforementioned conclusion valid. This statement and the accessory conclusion could be seen as the 'leitmotiv' of this book. This means that in the following chapters much attention is paid to the role and the kind of frictions that can threaten the optimal working of the economy, the view of the various theoretical schools, empirical evidence and policy measures taken with regard to these frictions. Ch. 2 gives then a description of the IS-LM-AS model in which markets for goods, assets and labor are dealt with. In this system, inflationary expectations play an important role both for investors and for labor market parties. Long-run equilibrium requires the equality of the expected and the actual inflation rate together with equality of demand and supply on the goods market. If this last condition is fulfilled, short-run equilibrium is reached. These two conditions for equilibrium are important themes in the next two chapters. In these, the new classical model and the institutionalist model are sketched. According to the new classical model, the price mechanism will take care of short-run equilibrium at any moment, while rational expectations assure long-run equilibrium. So, the information problem is supposed not to exist and adjustment (if needed) is reached instantly. This leads then to the well-known conclusion that in this model there is no room for systematic policy in order to influence real variables as employment and production. In the institutionalist model, however, much attention is paid to frictions in the economy. This means that the economy will more or less by chance be in equilibrium. If not, there is a role for monetary policy to get the economy on the right track. In this chapter wage contracts are used to illustrate how lags in adjustment processes, because of information lags and deliberately letting the price mechanism escape (the essence of contracting), can create disequilibria. Ch. 5 deals with the demand and Ch. 6 with the supply of money. In both chapters theoreti-
cal and empirical aspects are discussed. Empirical evidence is presented for Canada and the United States. In these chapters, much space is given to financial innovations that influence the magnitude of the usual monetary aggregates. These innovations tend to make the results of empirical evidence difficult to interpret. In Ch. 7, it is shown what the 'best' responses should be in case a random shock would create a disequilibrium. This chapter deals with the familiar problem of keeping either the money supply or the interest rate constant. It is shown that the answer depends on the type of shock. However, these are just theoretical and hypothetical contemplations. In the next chapter, the theory is applied to the period 1972–82 and the answer of the Fed to the shocks during this period. In Ch. 9, the model is extended to a model of an open economy. Although this chapter is sometimes rather complex, the role of the exchange rate and the consequences of the two types of exchange rate mechanisms for the possibility of an independent monetary policy, is explained fairly clearly. In the next chapter, the characteristics of this model are investigated by analyzing the effects of various types of disturbances. Ch. 11 is devoted to monetary policy in Canada in the period 1975–82 and in the last chapter some institutional aspects like the monopoly of the Central Bank and wage indexation are discussed.

To conclude, this book gives the student a good insight into modern monetary theory. The empirical evidence is very clarifying. Alas, as far as actual monetary problems and policy is concerned, only the American and Canadian situations are considered. This makes parts of the book less suitable for European students, the more so as the relation between the economic situation in the USA and in Europe is not at all discussed.

A.P. van Veen


The book is a collection of 16 papers which were presented at a Conference held at the University of Manchester in July 1984. In general, all contributions are devoted to the problem of measuring the effects and economic changes on labour market behaviour.

The volume is divided in two parts. The first part concerns unemployment and search theory, the second part deals with labour supply. There are two important characteristics. Much attention is paid to the measurement of the effects of various types of governmental intervention (taxation and benefit programs) on labour supply decisions. Also there is a systematic use of highly advanced econometric techniques and models. The volume brings together some of the most important innovations in this field.

Although such a combination of papers gives an excellent impression of the state of labour supply analysis, it also suffers from two notable weaknesses. First there is no real leading thread running through it. The contributions are too heterogeneous and fragmentary. Second, there is too much difference in quality. Some papers look well suited for leading journals whereas others are unbalanced conference papers. There are two other points of criticism: The empirical data in most papers are rather old (up to 1979) and hence fail to take into account the behavioural responses on the tremendous rise in unemployment during the last 7 years. This asks for testing the temporal transferability of the models. Finally, there is only little attention for institutional factors, such as demand restrictions on the number of hours worked. Also spatial elements such as