Contents

List of Figures	xiv
List of Tables	xvii
Foreword	xxi
Introduction and Overview	3
Overview of the Book Some Methodological Issues	4 8
One Scope of Development Macroeconomics	11
1.1 Monetarism, Structuralism, and Developing Nations	13
1.2 Economic Structure and Macroeconomic Analysis	16
1.2.1 Openness to Trade in Commodities and Assets	16
1.2.2 Long-Run Supply Behavior	22
1.2.3 Short-Run Supply Behavior	22
1.2.4 Financial Markets	23
1.2.5 Characteristics of the Government Budget	26
1.2.6 Characteristics of Private Behavior	29
1.2.7 Stability of Policy Regimes	30
1.3 Development Macroeconomics: Special Topics	32
PART I MACROECONOMIC RELATIONSHIPS	
AND MARKET STRUCTURE	35
Two	
Aggregate Accounts, Production, and Market Structure	37
2.1 A General Accounting Framework	38
2.1.1 The Nonfinancial Private Sector	38
2.1.2 The Public Sector	40
2.1.3 The Commercial Banking System	42
2.1.4 Aggregate Relationships	43
2.2 Production Structure in an Open Economy	44
2.2.1 The Mundell-Fleming Model	44
2.2.2 The "Dependent Economy" Model	48
2.2.3 A Model with Three Goods	52
2.3 The Structure of Labor Markets	55
2.3.1 Functioning of Labor Markets	55
2.3.2 Output and Unemployment	57

2.3.3 Indexation and Wage Rigidity	60
2.3.4 Labor Market Segmentation	62
2.3.4 Labor Market Segmentation	64
2.4 Informal Financial Markets 2.4.1 Informal Loan Markets	65
2.4.1 Informat Loan Markets 2.4.2 Parallel Markets for Foreign Exchange	67
Three Behavioral Functions	73
	73

	3.1	Consumption and Saving	1.7
		3.1.1 Consumption Smoothing	77
		3.1.2 Length of Planning Horizon	
		and Liquidity Constraints	78
		3.1.3 Effects of Interest Rate Changes on Savings	79
		3.1.4 Public and Private Consumption	80
	3.2	Private Investment	81
		3.2.1 Specification Issues	81
		3.2.2 Determinants of Private Investment: The Evidence	84
	3.3	The Demand for Money	86
		3.3.1 Conventional Money Demand Models	87
		3.3.2 Currency Substitution and the Demand for Money	89
	3.4	Aggregate Supply Functions	96
		3.4.1 Cross-Regime Tests	97
		3.4.2 Within-Regime Tests	98
		3.4.3 An Assessment of the Evidence	101
]	PAR	TII SHORT-RUN MACROECONOMIC POLICIES	103
	Four		
	Fisca	l Deficits, Public Solvency, and the Macroeconomy	105
	4.1	The Government Budget Constraint	106
		4.1.1 The Consolidated Budget Deficit	106
		4.1.2 The Measurement of Fiscal Deficits	109
		4.1.3 Seignorage and Inflationary Finance	111

	1.1.2 The measurement of T iscut Deficits	109
	4.1.3 Seignorage and Inflationary Finance	111
4.2	Policy Consistency and the Solvency Constraint	121
	4.2.1 The Intertemporal Solvency Constraint	122
	4.2.2 Financing Constraints and Policy Consistency	125
4.3	Macroeconomic Effects of Fiscal Deficits	126
	4.3.1 Ricardian Equivalence	127
	4.3.2 Deficits, Inflation, and the "Tight Money" Paradox	128
	4.3.3 Deficits, Real Interest Rates, and Crowding Out	137
	4.3.4 Deficits, the Current Account,	
	and the Real Exchange Rate	147

Five

L'IVC		
Financ	cial Markets, Capital Mobility, and Monetary Policy	151
5.1	Financial Repression: Macroeconomic Effects	152
	Financial Repression, the Inflation Tax,	
	and Capital Controls	153
	5.2.1 Financial Repression and Inflationary Finance	154
	5.2.2 A General Public-Finance Approach	157
5.3	Capital Mobility: Empirical Evidence	159
	5.3.1 The Magnitude of Gross Flows	160
	5.3.2 Tests of Interest Parity Conditions	161
	5.3.3 Tests of Monetary Autonomy	165
	5.3.4 Saving-Investment Correlations	166
	5.3.5 Summary	167
5.4	Models of Informal Credit and Foreign Exchange Markets	167
	5.4.1 Models of Informal Credit Markets	168
	5.4.2 Models of Informal Currency Markets	174
5.5	Monetary Policy with Informal Financial Markets	180
	5.5.1 The Analytical Framework	181
	5.5.2 Changes in Monetary Policy Instruments	185
Six		
	inge-Rate Management I: Credibility and Crises	190
6.1	Evidence on Exchange-Rate Regimes	190
	Credibility and Exchange-Rate Management	195
	6.2.1 Time Inconsistency and Exchange-Rate Policy	196
	6.2.2 Credibility of a Fixed Exchange Rate	200
	6.2.3 Reputation, Signaling, and Exchange-Rate	
	Commitment	201
	6.2.4 Credibility Effects of Monetary Unions	203
6.3	Speculative Attacks and Balance-of-Payments Crises	207
	6.3.1 A Model of Exchange Regime Collapse	208
	6.3.2 Extensions to the Basic Framework	213
	6.3.3 Evidence on Balance-of-Payments Crises	218
Sever		
	ange-Rate Management II: Contractionary Devaluation and	
	Exchange-Rate Rules	223
7.1	Contractionary Devaluation	224
	7.1.1 Effects on Aggregate Demand	224
	7.1.2 Effects on Aggregate Supply	240
	7.1.3 Empirical Evidence	248
	L .	

7.2 Real-Exchange-Rate Targeting	255
7.2.1 The Analytical Framework	256
7.2.1 The Analytical Francework	258
7.2.2 Targeting the Real Exchange Rate	260
7.2.3 Effects of Macroeconomic Shocks	200
PART III ANALYSIS OF STABILIZATION PROGRA	MS 263
Eight	265
An Overview of Stabilization Programs	205
8.1 Populism	267
8.1.1 Chile under Allende (1970–73)	267
8.1.2 Peru under García (1986–90)	269
8.2 Orthodox Money-Based Stabilization	270
8.2.1 Chile (September 1973)	271
8.2.2 Bolivia (August 29, 1985)	272
8.3 Exchange-Rate-Based (Southern Cone)	
Stabilization Programs	275
8.3.1 Chile (February 1978)	275
8.3.2 Uruguay (October 1978)	276
8.3.3 Argentina (December 1978)	280
8.4 Heterodox Programs	282
8.4.1 Argentina (June 14, 1985)	282
8.4.2 Israel (July 1, 1985)	286
8.4.3 Brazil (February 28, 1986)	29 0
8.4.4 Mexico (December 1987)	293
Nine	
Inflation and Short-Run Dynamics	298
9.1 Models of the Inflationary Process	298
9.1.1 Inflation, Money, and Fiscal Deficits	299
9.1.2 Food Supply, Distribution, and the Wage-Pr	
9.1.3 A Structuralist-Monetarist Model	311
9.2 Dynamics of Monetary and Exchange-Rate Rules	314
9.2.1 A One-Good Framework	314
9.2.2 A Three-Good Model with Sticky Wages	327
Ten	
Analytical Issues in Disinflation	
Programs	338
101 Two Puzzles in Exchange Bate David D	
10.1 Two Puzzles in Exchange-Rate-Based Programs 10.1.1 The Boom-Recession Cycle	
10.1.2 The Behavior of Post Literate P	339
10.1.2 The Behavior of Real Interest Rates	356

10.2 The Role of Credibility in Disinflation Programs	359
10.2.1 Sources of Credibility Problems	360
10.2.2 Enhancing the Credibility of Disinflation	
Programs	365
10.2.3 Policy Lessons	378
10.3 Disinflation and Nominal Anchors	381
Appendix: Output Effects of Price Controls	385
Eleven	
Stabilization Policies with Informal Financial Markets	389
11.1 An Integrated Analytical Framework	389
11.1.1 Structure of the Model	390
11.1.2 Effects of Interest Rate Liberalization	399
11.2 A General Equilibrium Simulation Model	403
11.2.1 Structure of the Model	404
11.2.2 Effects of Stabilization Policies	409
Appendix: Equations of the Simulation Model	416
PART IV GROWTH, DEBT, AND STRUCTURAL REFORMS	419
Twelve	
Models of Stabilization and Growth	421
12.1 Bank-Fund Models	423
12.1.1 The IMF Financial Programming Model	423
12.1.2 The World Bank RMSM Model	425
12.1.3 A Simple Bank-Fund Model of Stabilization	
and Growth	426
12.2 "Three-Gap" Models	427
12.3 Macroeconometric Models	431
12.3.1 Structure of Production	432
12.3.2 Aggregate Supply	433
12.3.3 Aggregate Demand	434
12.4 Computable General Equilibrium Models	436
Appendix: The Khan-Knight Monetary Disequilibrium Model	439
Thirteen	
The Debt Overhang, Investment, and Growth	442
13.1 Origins of the Debt Crisis	444
13.1.1 Public Sector Solvency	444
13.1.2 Application to the Debt Crisis	446
13.2 Policy Response and Macroeconomic Implications	450
13.3 Resolution of the Crisis: The Brady Plan	454
13.3.1 Outline of the Plan	454
13.3.2 Macroeconomic Effects: Conceptual Issues	456

Appendix: Incentive Effects of a Detri Overnans Fourteen Trade, Financial, and Exchange-Rate Reforms 14.1 Monetary and Financial Liberalization 14.1.1 Monetary Reform 14.1.2 Financial Liberalization 14.2 Unification of Foreign Exchange Markets 14.2.1 Short-Run Dynamics of Unification 14.2.2 Longer-Run Effects of Unification 14.2.3 Evidence on Unification Attempts 14.3 Macroeconomic Effects of Trade Reforms 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns	468 472 472 473 477 479 479 479 487 489 491 492 494 499 500 505 509
 Trade, Financial, and Exchange-Rate Reforms 14.1 Monetary and Financial Liberalization 14.1.1 Monetary Reform 14.1.2 Financial Liberalization 14.2 Unification of Foreign Exchange Markets 14.2.1 Short-Run Dynamics of Unification 14.2.2 Longer-Run Effects of Unification 14.2.3 Evidence on Unification Attempts 14.3 Macroeconomic Effects of Trade Reforms 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	472 473 477 479 479 487 489 491 492 494 499 500 505
 Trade, Financial, and Exchange-Rate Reforms 14.1.1 Monetary and Financial Liberalization 14.1.2 Financial Liberalization 14.2 Unification of Foreign Exchange Markets 14.2.1 Short-Run Dynamics of Unification 14.2.2 Longer-Run Effects of Unification 14.2.3 Evidence on Unification Attempts 14.3 Macroeconomic Effects of Trade Reforms 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns	472 473 477 479 479 487 489 491 492 494 499 500 505
 14.1 Monetary and Financial Elberalization 14.1.1 Monetary Reform 14.1.2 Financial Liberalization 14.2 Unification of Foreign Exchange Markets 14.2.1 Short-Run Dynamics of Unification 14.2.2 Longer-Run Effects of Unification 14.2.3 Evidence on Unification Attempts 14.3 Macroeconomic Effects of Trade Reforms 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns	473 477 479 479 487 489 491 492 494 499 500 505
 14.1.1 Monetary Reform 14.1.2 Financial Liberalization 14.2 Unification of Foreign Exchange Markets 14.2.1 Short-Run Dynamics of Unification 14.2.2 Longer-Run Effects of Unification 14.2.3 Evidence on Unification Attempts 14.3 Macroeconomic Effects of Trade Reforms 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2.1 Externalities and Increasing Returns	477 479 479 487 489 491 492 494 499 500 505
 14.1.2 Financial Liberalization 14.2 Unification of Foreign Exchange Markets 14.2.1 Short-Run Dynamics of Unification 14.2.2 Longer-Run Effects of Unification 14.2.3 Evidence on Unification Attempts 14.3 Macroeconomic Effects of Trade Reforms 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	479 479 487 489 491 492 494 499 500 505
 14.2 Unification of Foreign Exchange Markets 14.2.1 Short-Run Dynamics of Unification 14.2.2 Longer-Run Effects of Unification 14.2.3 Evidence on Unification Attempts 14.3 Macroeconomic Effects of Trade Reforms 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	479 487 489 491 492 494 499 500 505
 14.2.1 Short-Run Dynamics of Unification 14.2.2 Longer-Run Effects of Unification 14.2.3 Evidence on Unification Attempts 14.3 Macroeconomic Effects of Trade Reforms 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2.1 Externalities and Increasing Returns	487 489 491 492 494 499 500 505
 14.2.2 Longer-Run Effects of Unification 14.2.3 Evidence on Unification Attempts 14.3 Macroeconomic Effects of Trade Reforms 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	489 491 492 494 499 500 505
 14.2.3 Evidence on Unification Attempts 14.3 Macroeconomic Effects of Trade Reforms 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	491 492 494 499 500 505
 14.3 Macroeconomic Effects of Trade Reforms 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	492 494 499 500 505
 14.3.1 Trade Reforms: Some Recent Evidence 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	494 499 500 505
 14.3.2 Trade Liberalization, Wage Rigidity, and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	499 500 505
and Employment 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns	499 500 505
 14.4 Sequencing and Speed of Reforms 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	500 505
 14.4.1 Sequencing of Reforms 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	505
 14.4.2 Adjustment Costs, Credibility, and the Speed of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	
of Reform PART V ENDOGENOUS GROWTH, POLITICAL ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns	
ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns	509
ECONOMY, AND LABOR MARKETS Fifteen Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns	509
 Human Capital, Financial Intermediation, and Growth 15.1 The Neoclassical Growth Model 15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns 	
15.1 The Neoclassical Growth Model15.2 Endogenous Growth Theories: A Brief Overview15.2.1 Externalities and Increasing Returns	
15.2 Endogenous Growth Theories: A Brief Overview 15.2.1 Externalities and Increasing Returns	511
15.2.1 Externalities and Increasing Returns	513
15.2.1 Externalities and Increasing Returns	518
•	519
15.2.2 Human Capital and Knowledge	520
15.2.3 Effects of Financial Intermediation	522
15.3 Empirical Evidence and Assessment	527
Sixteen	
The Political Economy of Stabilization and Adjustment	533
16.1 Politics, Economic Policy, and Adjustment	533
16.1.1 The Political Economy of Structural Adjustment	534
16.1.2 Political Instability, Inflation, and Fiscal Deficits	FOR
16.2 Political Stabilization Cycles	536
16.2.1 "Opportunistic" Models	536 536
16.2.2 Models with Informational Asymmetries	536
Jernovier in Statistic in the	
16.3 Elections-Induced Economic Cycles: The Evidence	536 537 543
16.3 Elections-Induced Economic Cycles: The Evidence 16.3.1 Informal Evidence 16.3.2 Econometric Evidence	536 537

Seventeen

Seventeen	
Macroeconomic Adjustment with Segmented Labor Markets	556
17.1 A Partial-Equilibrium Framework	556
17.2 A Macroeconomic Model with Segmented Labor Markets	559
17.2.1 Output and the Labor Market	559
17.2.2 Consumption and the Market for Nontraded Goods	562
17.2.3 The Government	563
17.2.4 Labor Market Adjustment	563
17.3 Government Spending, Real Wages, and Employment	564
17.4 Labor Heterogeneity, Minimum Wages,	
and Unemployment	567
Epilogue	571
Notes	575
References	625
Index of Names	661
Index of Subjects	671