CONTENTS

Preface

PART I. ESSAYS IN METHODOLOGY

Chapter 1. Foreign exchange shadow prices. A critical review of current theories, by Edmar Bacha and Lance Taylor 3

1 Introduction 3
2 The welfare approach 4
3 Costs of producing foreign exchange 13
4 Equilibrium and parity exchange rates 18
5 Comparisons of the methods and a recommended evaluation rule 25

Chapter 2. Two generalizations of discounting, by Lance Taylor 31

1 Introduction 31
2 General dicision rules 32
3 First order decision rules 36
4 Optimal shadow prices for large projects 41
Appendix 42

PART II. ESTIMATES OF SHADOW PRICES

Chapter 3. Shadow wages in Chile, by Francis Seton 49

1 Introduction 49
2 The underlying theory of shadow-pricing 50
3 The cost of labour to the project (BP-content) 56
4 The social adjustments 73
5 Summary of results 83
Appendix A: Border prices and the static Pareto optimum 88
Appendix B: The computation of demand-induced labour requirements 92
Appendix C: The social valuation of incremental consumption 96

Chapter 4. Growth and trade distortions in Chile, and their implications in calculating the shadow price of foreign exchange, by Lance Taylor and Edmar Bacha 121

1 Introduction 121
2 Projections of foreign exchange use 122
3 Costs of trade improvement 126
4 Shadow price calculations 139
5 Conclusions 145

Chapter 5. The cost of capital in the Chilean economy, by Sergio Bitar and Hugo Trivelli 147

1 Introduction 147
2 Social rate of return in the industrial sector 149
3 Methodology 150
4 Results of the industrial sector 156
5 Discussion of the results 161
6 Other results 163
7 Conclusions 165

Chapter 6. Investment project analysis in terms of a model of optical growth, by Lance Taylor 167

1 Introduction 167
2 Open economy development constraints 168
3 A model for Chile 169
4 Optimality conditions, and their interpretation 174
5 Project evaluation in the optimal growth model 175
6 Functional specifications 178
7 Base year specification and parameter values 179
8 A basic solution 185
9 Variant solutions 190
10 Comparisons to other approaches and conclusions 194
Appendix: Computation and second order effects 196

Chapter 7. Project evaluation within a macroeconomic framework, by Peter B. Clark, Alejandro Foxley R. and Anna Maria Jul 199

1 Introduction 199
2 Description of the macroeconomic model 202
3 Evaluation of the Arauco cellulose project 205
4 Criteria for selecting a project as evaluated within the framework of a multisectoral programming model 208
5 Sensitivity of the evaluation method to changes in the availability of total resources and in the international price of cellulose 214

6 Conclusions 220
Appendix: Equations and restrictions of the multisector linear programming model 221

PART III. SECTORAL STUDIES

Chapter 8. Aggregative market responses in developing agriculture: the postwar Chilean experience, by Jere R. Behrman 229

1 Introduction 229
2 Long run Chilean aggregate agricultural market responses 232
3 Short run Chilean aggregate agricultural market responses 238
4 The determination of the rate of change of Chilean aggregate agricultural prices 240
5 The determination of the rate of change of Chilean aggregate agricultural wages 243
6 Conclusions 245
Appendix: Notational conventions and variable definitions and sources 246

Chapter 9. Cyclical sectoral capacity utilization in a developing economy, by Jere R. Behrman 251

1 Introduction 251
2 Patterns of sectoral utilization of historically attainable capacity in postwar Chile 253
3 The determination of Chilean sectoral outputs of annual real gross domestic product, 1945–1965 260
4 Conclusions 266

PART IV. INTERNATIONAL TRADE AND DEVELOPMENT STRATEGIES

Chapter 10. Preference for industry and commercial policy theory in industrializing countries, by Edmar Bacha 269

1 Introduction 269
2 The economy described 270
3 Commercial policy alternatives 276
4 Ordering the alternatives 288
Appendix: A note on the 'trade vs. acid' controversy 289

Chapter 11. The Andean common market: gestation and outlook, by Carlos Diaz-Alejandro 293

1 Introduction 293
2 Some characteristics of the Andean Five 294
3 The road to Cartagena 298
4 Outlook for the Andean customs union: trade creation 303
5 Trade diversion 311

6 Outlook for Andean policies toward intra-Andean factor movements 313
7 Outlook for Andean policies toward non-Andean traders and investors 316
8 Possible future difficulties and damagers of the Andean Group 319
9 Some conclusions 325

Chapter 12. Neoclassical projections of foreign exchange needs in Chile, by L. Taylor 327

1 A neoclassical model for projecting foreign exchange requirements 328
2 Numerical projections 332

Chapter 13. Target shooting with a multisectoral model, by Peter B. Clark and Alejandro Foxley R. 341

1 Introduction 341
2 Multi-sectoral programming models 344
3 Description of the model 345
4 Aggregate adjustments of the models 352
5 Target trade-offs described by policy variations 356
6 Conclusions 365

PART V. STUDIES OF THE EFFECTS OF INFLATION

Chapter 14. Price determination in an inflationary economy: the dynamics of Chilean inflation revisited, by Jere R. Behrman 369

1 Introduction 369
2 The demand for per capita real monetary balances and aggregate price determination 372
3 The determination of the rate of change of sectoral Chilean prices, 1945–1965 385
4 Conclusions 395

Chapter 15. A study of quarterly nominal wage change determination in an inflationary developing economy, by Jere R. Behrman and Jorge G. Mujica 399

1 Introduction 399
2 The role of expectations of the rate of change of price levels in the determination of sectoral rates of change of nominal wages 401
3 Some possible additional determinant of the rate of change of Chilean sectoral nominal wages 407
4 Conclusions 414
Appendix: Data sources 415

References 417

Subject index 427