

# Abstract of the Thesis

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Abstract of the Thesis Submitted by the Research Scholars who carried out Studies at the GIPE, to the University of Poona for the Degree of Ph.D.

Title : *A Multicountry Macroeconomic Model*

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1. The thesis is an attempt to formulate a theoretical framework that can be used to understand the economic processes by which the national incomes, trade patterns, capital movements and exchange rates are simultaneously determined in a world economy comprising several sovereign but interdependent nations.

This problem has been tackled by interconnecting the Keynesian open economy macro-models of the constituent nations to obtain a general equilibrium system that represent the world economy. The connecting links between the national economies are inter-country import demand equations, the inter-country capital movements and the invisible capital-servicing payments associated with these movements.

The advantage of multi-country models, as opposed to their two-country approximations, are too well known to be emphasised. To begin with, multi-country models possess an obviously greater degree of realism over the standard two-country models.

But far more important is the fact that a two-country model just cannot handle questions of 'higher degree'; e.g., what, if at all, is the effect of a reduction of U.S. tariffs on Brazilian coffee on the economics of Brazil, Malaysia, or India? what is the effect of increased financial transfers by international financial institutions and governments, to East European countries undergoing perestroika on the African or Asian countries? etc. Yet these questions are a continuing concern of policy makers and economists. They arise on a day-to-day basis in discussions of international co-operation on monetary and trade policies. It is therefore important to make some headway in direction of formulating explicit multi-country models to help understand such issues.

What is more, such models need not be mere edifices. For data about the multilateral balance of payments is compiled and published by several international institutions like the IMF and the IBRD on a regular basis. These data are being extensively used in global macro-econometric models like Project LINK, EUROLINK, DESMOS, METEOR and COMET designed to test the nature of international economic linkages. What is required is a theoretical framework