The EEC countries fix a ceiling of the quantities of different products imported under the GSP. Moreover, maximum quotas are fixed for individual countries. Thus even if the ceiling is not reached, a country may not be allowed to export more if its own share has been exhausted. Products are categorised into sensitive, semi-sensitive and non-sensitive commodities. Trade in sensitive and non-sensitive commodities is restricted to safeguard domestic industry. Generally, the ceilings imposed provide inadequate export possibilities to the developing countries. It is suggested that processed and semi-processed agricultural products, industrial raw materials, and base metals be included in the GSP. Also, the methods applied to calculation of ceilings on imports should be revised. Further, the ceilings should be fixed at an aggregate level, say, the 4-digit level. A reserve quota should be established in case the global quota ceiling is not reached.

Japan has a vast majority of products in its GSP, including raw materials and some agricultural products. Ceilings are determined by applying a growth rate. However, this growth rate has always been exceeded by the growth of total imports. Due to a substantial transformation requirement, one-fourth of the trade fails to receive preferential treatment due to the rules of origin. The suggestions to improve Japan’s GSP are similar to those for the EEC system, namely, an extension of product coverage and a revision of the formula used in the calculation of the ceilings. Also, in enforcing the rules of origin, all the beneficiary countries should be taken as one area.

The GSP of the UK is liberal and includes manufactured, semi-manufactured and agricultural products. However, it excludes textiles. Now that the UK has joined the EEC, the GSP of the EEC has two effects—trade diversion and trade creation. The developing countries are at a disadvantage as other developed countries are also given preferential treatment. Thus the advantages of the GSP are eroded. Moreover, the liberal GSP of the UK will be replaced by the restrictive GSP of the EEC, and this will have an adverse effect on the exports of the developing countries.

On the whole, the Report is interesting and contains some very useful documents. Since these documents discuss the GSPs of different countries at length, they should be helpful to government officials as well as individual exporters in framing their policies. The Report contains an immense amount of useful data which will no doubt of great help to researchers. The Report deserves a prominent place on the shelves of all important libraries.

A. R. Kemal

Pakistan Institute of Development Economics, Islamabad.


This book, edited by Paul Zarembka, is a useful collection of eight recent papers in Econometrics.

The first paper, by J. B. Ramsey, examines, ex post of data, the validity of the standard econometric model \( y = XB + u \). The objective of the author is to see if evidence from estimated disturbances shows that the assumptions of the linear model obtained for the empirical problem under investigation. The second paper,
by K. Gaver and M. Geisel, is in two parts. Part I discusses model selection procedures based upon the classical statistical inference while Part III discusses Bayesian procedures.

The above two papers are, therefore, concerned with model discrimination and selection. The remaining papers generalize the standard linear econometric model in one way or another.

Zarembka is concerned with linear transformations on dependent and independent variables so that linear techniques become applicable to the transformed variables. The econometric problem then is how to estimate the transformed model under assumptions about the error sector.

McFadden's paper is concerned with conditional logit analysis. More specifically it provides the theoretical basis for logit analysis, in which outcomes are viewed as a probability of a particular individual's choice, and it sets up a maximum likelihood procedure for estimation. He discusses his axiom I—"independence of Irrelevant Alternatives"—which in this context states that the probability of Y being chosen over X in a multiple choice situation where both are available, equals the probability of a binary choice of Y over X.

P.A. Swamy drops the assumption that B is a fixed Vector in y = X – u. He considers B random, distributed independently of x, and the idea is to develop a procedure for estimating the mean and the covariance-covariance matrix of B.

Lester Taylor questions the assumption by econometricians that the error terms are generated by distributions with finite variance. The implications of an infinite variance for classical analysis are disastrous, to say the least. The Gauss-Markov theorem no longer holds. An infinite variance implies thick tails and this, in turn, implies a lot of "outliers". Since O.L.S. gives outliers a lot of weight, it becomes a highly sample-dependent procedure. Taylor suggests the use of least absolute errors (L.A.E.) because it gives relatively little weight to outliers.

The main theme of the seventh paper, by Goldberger, is that econometricians have traditionally placed too much emphasis on errors in equations and too little in errors in variables. According to him, this neglect is due to the mistake of taking the permanent income model as the prototype for the errors-in-variables model. Since the permanent income model is under-identified (without Friedman's assumption that permanent consumption is proportional to, rather than merely linear in, permanent income), the errors-in-variables models have come to be associated with under-identification. The absence of any exciting problems of estimation and hypothesis testing in under-identified models has thus forced econometricians to shun these models. Goldberger shows that the permanent income model is a misleading prototype and that errors-in-variables do not preclude identification.

The final paper, by Brundu and Jorgenson, is concerned with the class of consistent and efficient estimators for systems of simultaneous equations based on the method of instrumental variables. In large macro-econometric models involving two or three stage least squares, we require, in the "first stage", to regress each endogenous variable on the whole set of all predetermined variables which may well exceed the number of observations. Some of the papers are concerned with frontier topics; most of them illustrate the point with applied examples; and all of them have extremely useful bibliographies.

Department of Economics, Yale University, New Haven, Conn., U.S.A.

Mahmood Ali Ayub