William R. Cline, International Monetary Reform and the Developing Countries (The Brookings Institution, Washington, DC, 1976) pp. 126, $3.50 paper, $9.95 cloth.

This short book attempts to assess, from the standpoint of the developing countries, the implications of the movement to exchange-rate flexibility following the collapse of the Bretton Woods system and the possible linkage of SDR creation with increased aid.

Cline argues quite convincingly that there is no basis for LDC fears that exchange-rate flexibility will result in increased fluctuations in commodity prices or reductions in the levels of these prices. Moreover, he notes that uncertainty is not necessarily greater under flexibility if the standard for comparison is pegged rates, which were altered in large, discrete movements at various times in the postwar period, often in a crisis atmosphere. The LDCs may therefore have much to gain from exchange-rate flexibility to the extent that the adjustment mechanism functions more smoothly and effectively among the industrialized countries. Individual LDCs are still faced with the decision of course of whether they should tie their currency to the dollar or some other major currency or whether they should float independently. Cline has a good discussion of the important issues that must be considered in making this choice.

Cline's discussion of the SDR-aid link provides a useful summary of the pros and cons of the link with regard to such issues as the distribution of the seigniorage arising from SDR creation and whether the link may be a useful way to combat recession in the advanced countries or whether it will be inflationary and possibly aggravate payments imbalances in these countries. In order to assess these latter two issues in particular, Cline developed a simulation model designed to reconstruct the pattern of reserve changes that would have occurred in 1970–72 if the issuance of SDRs had been undertaken in a linked context. He concluded that a link would have had inconsequential effects on payments imbalances and inflation in the advanced countries. By the same token, he also showed that the link would have provided only a relatively modest addition to total aid during 1970–72, and that a substantial part of the addition would have been directed to the most advanced of the developing countries group. In the final analysis, the issue of the SDR-aid link is an academic one, as Cline notes, since there is not much likelihood of further SDR creation in the current international inflationary environment and so long as reserve levels are ample and less necessary than formerly, given the increased exchange-rate flexibility that has occurred.

Cline's discussion, especially of exchange-rate flexibility, should be required reading for the heads of central banks and finance ministers in the developing countries as well as for the spokesman for international organizations such as UNCTAD. Much the same kind of balanced and commonsense analysis could

well be addressed to other confused policy stances that the developing countries have adopted more recently in international forums, in particular the ill-advised initiative to promote an integrated program of buffer stocks and international commodity agreements for a wide variety of primary commodities.

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Lars Nieckels, Transfer Pricing in Multinational Firms: A Heuristic Programming Approach and a Case Study (Almqvist and Wiksell International, Stockholm, and John Wiley, New York, 1976) pp. xii + 190.

It is a considerable achievement to take the theory of intracorporate transfer pricing in a domestic economy (as developed by Hirschleifer, Shulman, Gould and others) and extend it in an international direction by modelling the optimal transfer pricing strategy for a multinational enterprise (MNE). This Nieckels has done in a benchmark study which demonstrates the theoretical case for transfer pricing by a MNE. It is found that, given the assumptions and qualifications of the model, a MNE can increase its overall profit rate by using transfer prices which are not necessarily the world market (or arm's length) prices.

The book is an unrevised version of a recent doctoral dissertation and suffers from many of the faults of that format, being very repetitive and pedantic in its writing. Chapter one is an introduction; chapter two a literature review; chapter three presents a proposed model of transfer pricing for a MNE; chapter four has a case study and the final chapter a summary and policy applications. There is both an author and subject index. The book addresses a broad question – the role of transfer pricing by a MNE – but in practice deals with a narrow application of optimising theory. Most of the points made by Nieckels would have more impact in a short article.

The main contribution of the book is a proof that the MNE can increase its profits by the use of transfer pricing. A deterministic model is produced by using mathematical programming techniques in an imaginative manner. Nieckels' basic model of international transfer pricing has a hypothetical MNE with two divisions – one is manufacturing and the other in marketing. Transfer prices are charged between these subsidiaries of the MNE on all intrafirm flows of goods and services, with the quantities of the latter being determined by standard profit maximization subject to cost constraints. In some versions of the model the transfer prices are set within upper and lower bounds. In addition to this restriction, and the assumption of constant returns to scale and fixed coefficients