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A Primer on Static Applied General Equilibrium Models (p. 2)

Patrick J. Kehoe
Timothy J. Kehoe

Capturing NAFTA's Impact With Applied General Equilibrium Models (p. 17)

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In This Issue

Last year's debate over the proposed North American Free Trade Agreement (NAFTA) brought to the front page a subject studied long and hard by economists: the net benefits of international trade. Today, economists continue working to improve the ability of their models to predict who will gain and who will lose from various trade policy changes. Now that NAFTA has been adopted, it offers a real-world test of these models. The results of this test may also indicate how the models can be improved so that economists will be better equipped when other such policy debates arise.

To further that effort, we devote this issue of the *Quarterly Review* to research on the type of model economists often rely on to assess international trade policy: the *applied general equilibrium (AGE) model*. The two articles in this issue—both by Patrick J. Kehoe and Timothy J. Kehoe—describe the general properties of AGE models as well as their strengths and weaknesses when they are applied to a specific policy change such as NAFTA.

“A Primer on Static Applied General Equilibrium Models” (p. 2) explains what a basic AGE model is and shows how it can be extended to make alternative assumptions about features relevant to the policy being studied. The article also includes an illustration of how reliable current versions of AGE models are.

“Capturing NAFTA's Impact With Applied General Equilibrium Models” (p. 17) summarizes the work of four research teams who have used versions of the basic model to study NAFTA's effects. The article demonstrates how this type of model can be used to address many international trade issues, points out some of its key limitations, and suggests a program for future research.

Arthur J. Rolnick
Editor