and second because the first price auction format gives a strategic advantage to late bidders, deterring early bidding and thus generating less exciting auctions.

The first argument seems to rely on some sort of cognition costs to deter participation when bidding strategies are optimally more sophisticated, but this is never spelled out explicitly. The second argument is based on the theory that early bids reveal strategically valuable private information in a first price auction, and so no one would bid early in this hypothetical eBay. The missing link here is why early bidding is important to eBay's success: Do buyers really participate on eBay, as the author claims, because they like the feel of an ascending auction with many early bids (a preference for "excitement"), and if so, where's the evidence for this?

I raise the question of missing links and evidence not because I think the author is wrong, but rather because I wish he had spent more pages making these arguments precise. As it is, the chapter examining this market design issue has nine pages on why the theory says the first price and second price auction formats are revenue equivalent and only two pages on why in fact the second price format might have been a better choice for eBay. Elsewhere in the book, an informative discussion of how a seller should optimally choose a reserve price on eBay abruptly segues into a discussion of the relative merits of field and laboratory experiments. At this point, it becomes clear that although this is a book that has useful information for those interested in eBay per se, it is written like a series of auctions lectures for sharp undergraduates, exposing them to auction theory with just enough fluff and practical issues thrown in to hold their interest.

Personally, I found this book by turns fascinating and frustrating. Despite its lack of focus, the book covers the eBay literature extremely thoroughly and I can recommend it as a good starting point for anyone interested in eBay research. Moreover, the appendix is a hidden gem, a crisp and succinct overview of the major results in auction theory, presented at a level appropriate to an upper-level undergraduate course. This book is a useful resource to instructors and researchers. But precisely because it covers such a wide range of topics and is appropriate for teaching, it is not an entertaining read. There is too much generic auction theory and literature review, and too few novel insights into eBay itself. This is a book best recommended to those interested in using eBay as a framing device for a fun course on auctions.

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E Macroeconomics and Monetary Economics

The Causes, Costs and Compensations of Inflation: An Investigation of Three Problems in Monetary Theory. By William Oliver Coleman. Cheltenham, U.K. and Northampton, Mass.: Elgar, 2007. Pp. viii, 260. $120.00. ISBN 978–1–84542–484–8. *JEL 2007–0867*

What causes inflation? What makes inflation costly? And what benefits, if any, does inflation provide to some or all agents that populate an economy? These are the three questions that William Oliver Coleman addresses in his appropriately and alliteratively titled new book.

Coleman starts by developing an analytic framework for identifying the fundamental causes of inflation, which he builds around a money-in-the-utility function specification, motivated by reference to the Baumol–Tobin idea that consumers economize on transactions costs by maintaining stocks of real cash balances. Usefully and interestingly, Coleman augments this standard model of money demand with a complementary description of how private financial institutions produce highly liquid assets that join government-issued currency as media of exchange. With this model of outside and inside money, Coleman examines how the nominal price level gets determined both under the traditional assumption that the central bank conducts monetary policy by managing the nominal supply of outside money and under the currently more fashionable "Wicksellian" view that the central bank conducts policy by managing the short-term nominal interest rate instead. Throughout, Coleman devotes special attention to establishing the validity of quantity-theoretic propositions linking changes in the nominal money stock to coincident and in some cases proportional changes in the price level, thereby providing answers to his first question: what causes inflation?

Next, Coleman extends his analysis, conducted initially under the assumption of perfect foresight, to accommodate uncertainty over future

realizations of both real (technological) and nominal (monetary policy) shocks. In these middle chapters of his book, Coleman also lays the foundations for his subsequent treatment of the costs and benefits of inflation by demonstrating how heterogeneous agents—relatively well-endowed "capitalists" and less fortunate "workers"—can trade in both real (indexed) and nominal (unindexed) bonds to hedge against risks of various kinds.

The final chapters of Coleman's book suggest and evaluate answers to his remaining two questions, concerning the costs and benefits of inflation. As for the costs, Coleman begins by reviewing the traditional Bailey–Friedman approach to measuring the consumer surplus lost when agents inefficiently economize on their holdings of real balances in the face of a positive nominal interest rate, again extending this traditional analysis to apply to the case in which outside and inside money coexist. After presenting some numerical examples that confirm the widely held suspicion that, at least for moderate rates of inflation, these "shoe-leather" costs cannot be very large, Coleman goes on to advance his own, alternative view.

According to Coleman's preferred line of analysis, inflation imposes costs on the economy principally by interfering with agents' ability to use nominal bonds as a hedge against macroeconomic risks. Since perfectly anticipated inflation gets built correctly into bond prices through the Fisher relation, however, Coleman's theory assigns costs not to inflation per se, but to inflation uncertainty instead: inflationary policy, by injecting an unnecessary element of price-level risk into the economy, partially foils heterogeneous agents' efforts to share other, more intrinsic, risks to preferences, endowments, and technologies.

Coleman's analysis along these lines also points to a potential benefit of inflation and inflation uncertainty. Specifically, it suggests that by making nominal bonds less attractive as instruments for sharing risk, inflation uncertainty might induce the worker-debtors in his model to save more and the capitalist-creditors to save less. Over time, inflation therefore has egalitarian effects that some agents might find appealing. Coleman's additional numerical examples leave open the question of how important, quantitatively, these alternative costs and benefits of inflation might be. But Coleman's ideas are intriguing and deserve to be followed up on in future work, using richer, more detailed, and more realistically calibrated models of heterogeneous agents, incomplete asset markets, and macroeconomic risks.

Whenever possible, Coleman address his three questions using a skillful mix of verbal arguments and graphical analyses; algebra and calculus appear as well, but only to the extent that they are absolutely needed to make the assumptions and their implications more precise. Coleman's clear and intuitive presentation style makes his book easy to learn from and fun to read. The book's dust jacket suggests that the volume is intended to reach a broad audience, including undergraduates as well as graduate students and professional economists, and, certainly, the emphasis on economic ideas as opposed to mathematical details makes Coleman's writing highly accessible. Still, it remains true that any serious treatment, like Coleman's, of price-level determination in dynamic, stochastic environments and of efficient risk-sharing among heterogeneous agents necessarily raises subtle issues that probably remain beyond the grasp of most college students, at least here in the United States.

Instead, Coleman's volume will prove most useful as a supplementary text for Ph.D. and masters-level courses in monetary and macroeconomics, filling in economic intuition for students who might otherwise get lost in the usual series of mathematical derivations and technical details. With this in mind, one thing that I would have wished for in Coleman's book is a more extensive list of references to other sources that deal with the same issues from different perspectives and perhaps with more of the technical detail. For instance, Coleman's analysis of price-level determinacy echoes many of the same basic ideas raised by Michael Woodford (1994), and Coleman's discussion of the Friedman rule for zero nominal interest rates and Phelps' critique of that rule based on considerations from public finance revolves around some of the same basic issues highlighted by Isabel H. Correia and Pedro Teles (1999) and the references cited therein. Coleman's book might be slightly more effective as a graduate text if it used a few more footnotes to point students interested in particular aspects of a problem to other key articles, like these, for further reading and research.

Finally, although Coleman does an excellent job of drawing connections between the mechanics of price-level determination under quantity theoretic versus Wicksellian depictions

of monetary policy, if anything I would have preferred to have seen these linkages made more strongly and forcefully. Under a Wickesellian rule, the central bank conducts monetary policy by managing the short-term nominal interest rate instead of the nominal stock of outside money. When the central bank adopts such a rule, however, it must choose not only the parameter governing the responsiveness of its interest rate setting to changes in the price level, but also the parameter determining the steady-state, or target, price level or inflation rate. Either way, the central bank takes responsibility for pinning down the price level; and either way, the central bank must supply private agents with a stock of money that grows at a rate that is consistent with its chosen target for inflation. Milton Friedman's (1968, p. 39) famous dictum that "inflation is always and everywhere a monetary phenomenon" holds true, even under a Wicksellian interest rate rule. To be sure, Coleman touches on these issues at various points in his text. But given the continued confusion within our profession, evidenced by a few noteworthy quotes that Coleman himself points to in his introduction (p. 4), I would argue that the universal relevance of the "always and everywhere" dictum cannot be overemphasized.

But these are minor points. Coleman's book provides an impressively clear, lively, and intuitive discussion of three of the most important issues in all of monetary economics. I recommend it highly to all readers with an interest in these issues.

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F International Economics

Case Studies in US Trade Negotiation. Volume 1. *Making the Rules*. By Charan Devereaux, Robert Z. Lawrence, and Michael D. Watkins. Washington, D.C.: Institute for International Economics, 2006. Pp. xi, 398. $27.95, paper. ISBN 978–0–88132–362–7. *JEL 2007–0086*

Case Studies in US Trade Negotiation. Volume 2. *Resolving Disputes*. By Charan Devereaux, Robert Z. Lawrence, and Michael D. Watkins. Washington, D.C.: Institute for International Economics, 2006. Pp. xi, 377. $27.95, paper. ISBN 978–0–88132–363–4. *JEL 2007–0087*

Introduction

Volume 1, *Making the Rules*, covers trade-related aspects of intellectual property rights (TRIPS); the multilateral agreement on investment (MAI); fast track/trade promotion authority; the 1999 U.S.–China bilateral agreement and the battle for permanent normal trade relations (PNTR); and the U.S.–EU Mutual Recognition Agreements. The dispute settlement cases in volume 2, *Resolving Disputes,* include U.S.–EU trade in hormone-treated beef; the EU banana regime; *Kodak v. Fuji*; U.S. steel actions; Brazil's WTO cotton case; and the U.S.–EU GMO dispute on agricultural biotechnology. The material in the two volumes is organized in the form of case studies developed at the Harvard University's John F. Kennedy School of Government and used for instructional purposes.

Making the Rules

Each of the cases in volume 1 is preceded by a discussion of the coverage of trade agreements, that is, whether the focus should be narrowly concentrated on trade-related issues, such as tariffs and quantitative restrictions, or be more broadly concentrated on the rules governing trade, such as investment policy, competition policy, regulatory policies, or labor and environmental standards. Also discussed is how deeply trade agreements should reach beyond national boundaries and into the domestic economy and whether nondiscrimination and transparency are to be sought in individual nations or whether there should be complete harmonization of policies across countries. The enforcement of trade agreements is another issue of importance that requires rules and procedures for resolving intercountry disputes that may arise. Further, the circumstances of developing countries may require special attention in trade agreements as