BOOK REVIEWS

Bertin Martens, Uwe Mummert, Peter Murrell, and Paul Seabright, *The Institutional Economics of Foreign Aid*, Cambridge University Press, Cambridge, 2002. 201 p. GBP 40.00 (ISBN 0 52180 818 9).

It is a well-known fact that despite substantial aid flows many developing countries have seen little improvement in their standards of living, which raises questions whether aid is well spent. The authors elaborate on the debate on aid effectiveness, albeit from a rather unconventional perspective. Rather than taking the recipient country's policy performance as the point of departure, the analysis explains aid performance in terms of the incentives inside the aid delivery process itself. Two characteristics are of crucial importance for the (dis)functioning of the foreign aid 'industry': many aid agencies are in fact public administrations (and consequently suffer from identical institutional weaknesses), and beneficiaries and donors are geographically separated. It is this second characteristic which distinguishes foreign aid from other sectors of public policy. While voters usually receive most benefits of domestic public services themselves (and can thus broadly assess whether tax money is well spent), this information feedback is absent in the case of foreign aid. Using a principal-agent framework, the authors address several questions related to the subsequent stages in the aid delivery process.

Seabright argues that a number of problematic characteristics of public administrations apply *a fortiori* to aid agencies, including the presence of multiple political principles and objectives, hard-to-verify and hard-to-measure results, and weak incentives for staff. These shortcomings make themselves felt in an overreliance on inputs, selection of projects for ease of monitoring rather than overall contribution to beneficiary welfare, a personnel policy that recruits and directs staff to easily monitored tasks, and promotion rules that rely upon performance in these tasks even for selecting people for tasks that require more judgement.

Murrell concentrates on the interaction of donors, contractors and recipients, and its effects in the increasingly popular field of institutional reform projects. In this particular area, a problem arises because of moral hazard on behalf of the recipient (which prevents that *de jure* law is effectively transformed in *de facto* law), while information asymmetries constrain the donor in his ability from distinguishing between *de jure* and *de facto* law. The bargaining relation between donor agent and recipient agent is modelled, equilibria are compared, and several real-world applications are made (e.g. the influence of interest groups, embeddedness, and *ex-post* evaluation).

Mummert touches upon the impact of institutional reform projects on the behaviour of citizens. The author concludes that the scenario of indigenous social norms impeding institutional reform projects is not very likely. A conflicting relationship between externally induced institutional reform and social norms can only occur if either one is of a highly prescriptive nature (that is, permitting only one kind of action, as opposed to proscriptive norms limiting the range of permitted actions). The scope for conflict is further reduced by the fact that even in traditional societies substantive social norms subdefine and protect private property rights. Whether societies will subordinate social norms to the law, depends largely on its legitimacy, that is the acceptance of the legal force of the government and of the obligatory nature of legal norms. Additional indirect effects may exist because public agents do not implement reforms in isolation. The author concludes that social fragmentation constitutes an important barrier to induce a collective aversion and, subsequently, an erosion of the social norm.

Martens elaborates on the role of evaluation in increasing aid performance. As a starting point, he observes that aid performance is not among the politicians' instrumental variables. Only through decisions on evaluation can performance be indirectly influenced. Decisions on evaluation are in the hands of politicians, which gives a political dimension to evaluation studies. In addition, alternative sources of information (NGOs, or the media) may uncover unsatisfactory performance. Consequently, risk aversion determines the effort that the executor of aid programs (a profit-maximising aid supplier) puts in ensuring that performance targets are met. The politician's decision with regard to evaluation depends on its utility in terms of generating votes, which in turn depends on aid suppliers (who wish to maximise their profit, and have no interest in evaluation) and taxpayers (who wish to maximise aid performance minus tax payments). Any move away from the taxpayers' interests will reduce the effort put in evaluation and hence reduce program performance. Pessimism prevails with regard to the ability of evaluation to enhance aid effectiveness in general, also because the presence of various principals induces vaguely described program objectives and woolly evaluation reports. Only factors external to the aid delivery process (for instance, better organised aid lobby groups) may increase the risk of discovery of poorly performing aid projects and motivate aid agencies to increase the quantity and quality of evaluations in order not to be caught unaware of these problems.

In the last chapter, Martens investigates how the policy conclusions from the earlier chapters can be applied and modified to take into account specific circumstances and constraints for various types of actors involved in aid deliveries. With regard to bilateral aid agencies, the author concludes that some institutional aspects can be changed in order to overcome the inherent biases (*inter alia* inputs and procedural bias, vaguely specified and hard-to-verify project outcomes, and selection of projects on the basis of ease of monitoring and speed of disbursement). Areas of key interest include personnel recruitment and promotion policies and the type of relation with the subsequent chain in the aid delivery process, the contractor. NGOs, which often lack wider political embeddedness in donor and recipient countries, may increase embeddedness by engaging in twinning activities. In addition, NGOs can help official bilateral aid agencies to disentangle problems and overcome some of the difficulties related to multiple objectives. As to the multilateral institutions, the author highlights important differences between the grant-based and loan-based institutions. Grant-based institutions rely on taxpayers' money from donor countries. This creates scope for undesirable political interference and highlights problems related to the presence of multiple political principles and multiple objectives. In contrast, loan-based agencies (the Multilateral Development Banks) raise capital at the international capital markets, which gives the management more room for discretionary decision-making, independent of national interests. On the other hand, the MDBs have to ensure sufficient performance of their credit portfolio, which may induce them to collude with their debtors in order to ensure continued debt service.

I find the analysis highly topical. This is especially true at the current juncture, where increasing importance is attached to equality in the relationship between donors and aid recipients. An important implication is that the legitimacy for policy conditionality can only be maintained if donors are willing to scrutinise the role of institutional deficiencies in their part of the aid delivery process as well. The authors are to be credited for providing the analytical basis to warrant such a critical self-assessment, and for identifying a number of areas, which are of key concern. However, when it comes to translating the outcomes of the analysis into specific remedial actions, the donor community could use some additional guidance. This applies *a fortiori* to the process of institutional dynamics, where questions arise as to how the changes envisaged by the authors can be brought about. It is for instance unclear how one can move away from a bad equilibrium with multiple principals, considering that meddlesome political principals have no incentive to relinquish their influence in favour of joint delegation or the unbundling of tasks. However, these questions basically set an agenda for future research, and it leaves the authors' principal achievement – that is, the demonstration of the importance of institutional factors within the aid delivery process for aid performance – unaffected.

Miquel Dijkman

Anders Aslund, *Building Capitalism. The Transformation of the Soviet Bloc*, Cambridge University Press, Cambridge, 2002. 508 p. GBP 21.95 (ISBN 0 52180 525 2)

A number of books came out in relation to the tenth anniversary of the collapse (or disintegration?) of the Soviet Union in 1991, taking stock of 10 years of transition. Such surveys serve two purposes: offering an account of developments in the former planned economies, and propagating the authors' views and opinions. The tighter the authors' involvement in policy decisions, the stronger the emphasis on the latter purpose. This also holds for the book under review.

Aslund's background as an economic historian and his empirical, policy-oriented interests ensure a host of factual details and a perspective that goes beyond the 1990s. Through his debate-like style he also provides a fairly complete, albeit coloured, account of the discussion and big policy issues that characterised the post-communist transition. It provides for a useful and very readable book.

Building Capitalism is the compelling story of righteous, heroic reformers battling with crooks and selfish rent seekers. Aslund introduces his book exactly like that (p. 3, 19) and adds that we hear in the background a big tumult of relevant and irrelevant arguments (p. 19). Clearly, anything that does not fit the 'heroes *versus* crooks' scheme, is considered background noise. This view renders the book its consistence and makes it very readable. But it also is its main weakness. Aslund has one story to tell and one position to defend. A host of facts, developments and arguments all fit remarkably well in this approach, either as facts or as fallacies. A summary of Aslund's version of the (post-)communist story is as follows.

Since 1917 there has been an increasing number of countries that organised their economies based on first-rate fallacies very much to the detriment of their citizens. Not surprisingly, these systems collapsed in 1989-1991, wishing to establish a normal economy at last in the way Western countries had. This change was supported by commendable organisations like the IMF, EBRD, and the World Bank, and by almost all competent economists, such as Jeffrey Sachs, Lawrence Summers, Jegor Gaidar, and Anders Aslund. Unfortunately, there also were opponents to this view: less competent Western economists, incompetent and predominantly Russian economists (suffering from a lack of relevant education), and, as the most dangerous opponents, the anonymous elite of managers and politicians who tried to delay reforms to their own benefit. In some countries (like the Ukraine and Kyrgizistan) they were successful, and the situation turned very badly there. Moreover, some argue that all transition countries entered in an unprecedented deep economic crisis just after the start of the reforms. This, however, is all varnish, a misconception caused by false statistics. The best performing countries were those that, within a relatively short period of time, pursued the following stages of reform: trade liberalisation, domestic deregulation, privatisation of corporations, houses and land, and financial stabilisation via a tight monetary policy.

Aslund's version of transition, as described above, has rhetorical, factual and logical flaws. Argumentation is sometimes replaced by suggestive reasoning, using concepts such as 'normal market economy' and 'ordinary market economic thinking' (p. 90), or by character assassination of opponents. Joseph Stiglitz, who attacked Aslund's type of views, is said to prefer dictatorship to democracy (p. 105). Social democrats are accused of 'believing in social engineering' (p. 83). Differentations of Aslund's views are portrayed as attempts to deliberate obfuscation (p. 71).

Most striking is the exclusion of Albania from his definition of Eastern Europe. On second thoughts this is less remarkable, as this country did everything according to Aslund's prescriptions, but nevertheless experienced a disastrous economic collapse in 1997. Likewise, the implications for Aslund's views of the many currency crises, the 1998 Russian financial crisis in particular, remain undiscussed, even though Aslund praised this country as a successful market economy. Aslund insists on the so-called *Washington consensus*, without adequately responding to the doubts that were cast on this view recently in relation to the many unpleasant surprises that occurred in transition countries.

The book's theme holds that rent-seeking is the main threat to economic success, but Aslund recommends drastic privatisation, which nonetheless has been found to be a source of rent-seeking and corruption itself. He defends democracy as inherently valuable and fostering economic growth and reforms, but at the same propagates that reformers ignore the majority of the population and promptly implement irreversible policies before it is too late – paternalism, dictatorship or democracy?

Most disturbing is his denial of social crises in transition countries. Many social indicators such as poverty rates, inequality, life expectancy, and suicide rates point towards welfare crises that might be related to recent economic developments and policies. Aslund is not convincing by arguing that the message these statistics disseminate is almost completely due to measurement errors. This biggest question mark on the blessings of the new market economy deserves a more serious consideration. In the end (transition-)economics is about a society's well-being, as Aslund himself acknowledges. This book is ultimately about Aslund's own right, and along the way one learns a lot about transition economics and rethorics.

Dirk Bezemer

Louis Galambos and Eric John Abrahamson, *Anytime, Anywhere. Entrepreneurship and the Creation of a Wireless World*, Cambridge University Press, Cambridge, 2002. 320 p. GBP 25.00 (ISBN 0 52181 616 5)

Wireless technology has changed our world forever. It has not only influenced the life of many individuals all over the world, but it has also effected the global economy. As a result of technological innovations an entire new industry arose. *Anytime, Anywhere* provides the story of the rise and expansion of the wireless industry from the perspective of one of America's most influential wireless entrepreneurs, Sam Ginn. It is based on his records and personal papers and more than one hundred interviews with people related to some of the major wireless companies. In 25 small chapters the various aspects of the wireless world are discussed in a chronological way. The theory of entrepreneurship is used to analyse the transition that took place in the telecom industry in the past two decades. The traditional Schumpeterian entrepreneur is a visionary, a hero. According to Schumpeterian theory, bureaucracy was the enemy of the entrepreneur as it would not foster creativity. Neo-Schumpeterians however believe that much of modern innovation comes out of very large companies. But most of them are bureaucracies. This study shows that both types of entrepreneurship coexisted within the American wireless industry and that Ginn is a third type, namely the bureaucratic entrepreneur.

The narrative of Ginn's entrepreneurship starts after the break-up of the Bell system in 1984. Until then AT&T, or Ma Bell as it was called, encompassed all basic telecommunications activities and employed hundreds of thousands of people across the United States. One of them was Sam Ginn. Having a thriving business career the 36-year-old Ginn became the youngest vice-president of AT&T. He is characterised as a typical representative of the Bell system.

Typical of the telecommunications industry up till the 1980s was that is was highly influenced by political institutions and that the telecom market was highly regulated. Being a monopoly enterprise AT&T dominated the US telecommunication market and as such directed the path of technological progress. This all changed after successful demonstrations of the cellular system. The mobile phone became very popular with the public and the two manufactures threatened the hegemony of the Bell system. This new technology and the changing political climate led to the government decision to break up the Bell system. As a result seven regional companies (Baby Bells) were created in 1984. Ginn headed one of them called Pacific Telesis. Yet, the old regulatory conditions remained unchanged. All seven companies were allowed to compete in a number of traditional and non-traditional activities and all got cellular as a birthright. This marked the development of wireless into a race. At Pacific Telesis Ginn transformed the company culture from bureaucratic into market-orientated. Although Ginn saw the potential of cellular it was not easy to get licenses needed to roll out cellular services. Moreover, due to regulations it was difficult to expand. Therefore Pacific Telesis pursued diversification within the US. A next step was expansion abroad. But international acquisitions were complicated as most telephone companies in the world were operated by government agencies or were public monopolies by tradition. For Ginn an unexpected opportunity occurred as privatisation and liberalisation introduced competition on the European telecommunications markets. On the other hand Pacific Telesis was fighting severe regulatory battles within the US in the early 1990s. Now, due to Californian regulations Pacific Telesis had to break up. Ginn started a new enterprise called AirTouch. By the mid 1990s the demand for wireless services grew rapidly. Digital technology boosted demand, but not until 1996 was legislation revised. Both at home and abroad AirTouch faced a new competitive situation in cellular services after the shift from analog to digital technology. Improvements in wireless technology then asked for new global technological standards. AirTouch managed to get licenses at several continents and built varied global partnerships. The grouping of AirTouch and British Vodafone and of Vodafone and German Mannesmann has generated the worlds largest wireless business.

This study offers a personal, a corporate, and a general economic perspective. Both authors are experts on the topic. They use the theory of entrepreneurial behaviour to understand the episodes of history of the wireless industry. A drawback of this framework lies in providing all historical information needed to understand the continuously changing setting in which Ginn worked. *Anytime, Anywhere* is written on the edge of facts and fiction, which makes it sometimes difficult to understand the argument. Anyhow, it is a contribution to the literature on a young industry that changed the world.

Joke Mooij

Anthony W. Dnes and Robert Rownthorn (eds.), *The Law and Economics of Marriage and Divorce*, Cambridge University Press, Cambridge, 2002. 232 p. GBP 47.50 (ISBN 0 52180 993 9 HB) GBP 16.95 (ISBN 0 52100 632 5 PB)

For long, economists have applied production and consumption theories to family decision-making. *The Law and Economics of Marriage and Divorce* provides a different outlook and considers the key role of economic incentives in family law. It highlights the unintended adverse consequences emanating from faulty legal design, while demonstrating that good family law should provide incentives for consistent and honest behaviour. The interaction between economics and law adds greatly to a careful insight about cohabitation, marriage and divorce. The study is highly recommended to scholars concerned with family law and economics of the family and may be of considerable interest to lawyers, economists or policymakers.

Interrelated topics on marriage commitment, divorce and bargaining issues run through the 12 essays by 14 different authors. The growth in divorce raises non-pecuniary questions about human welfare. There is concern that a badly designed divorce law may stimulate divorce and contribute to a great deal of misery for society as a whole. Related statistical data illustrate how legal reform was a causal factor in the growing number of divorced families, although there is less evidence for Europe than for America.

The first chapters examine the long-standing marriage structure as a long-term contract. Lloyd Cohen states that commercial contracts are also replete with complex problems of incentive alignment and broken-down personal relations. Separation and divorce invalidate the nearly universal expectation that the relationship should endure for the shared lives of the partners. Faced with the risk of increased divorce, women may respond by investing less in their marriage and children, thereby damaging and destabilising the relationship. Success of marriage requires partners to invest heavily in the relationship and asymmetrically over time.

Elizabeth Scott argues that in marriage as in legal contracts, commitment can promote co-operation and protect investment in the relationship to the mutual benefit of the parties concerned. Many individuals neglect moral or social family obligations and can blight marriage, forgoing the desired long-term binding commitments. Therefore, one does not have to be a conservative to support legal restrictions on divorce and welcome a way of legal obligations – covenant marriage.

The covenant marriage law unites two distinct strands of thought. It is consistent with the liberal notion that individuals should have the right to make binding commitments if they so choose. At the same time, it embodies the notion that marriage serves important social functions and represents the moral notion of personal responsibility.

The prominent feature in Katherine Spaht's analysis is the robust defence of fault. Not surprisingly, because she drafted Louisiana's Covenant Marriage law. Fault is no more difficult to establish in the case of divorce than in many legal contracts. Mutual consent divorce is discussed by Alan Parkman. Individuals can increase control over their marriage through contracts and have better grounds for decision-making. Mutual consent provides grounds for diligent attitude towards family commitments. That efficiency in marriage requires legal remedies for adultery is the outcome of the economic analysis of Eric Rasmussen. Martin Zelder explores the process and efficiency of the outcome of bargaining in marriage and divorce. This application is still in its infancy.

More people nowadays choose to cohabit rather than marry. Antony Dnes discusses the extent to which the law should seek to regulate cohabitation, and how these regulations should consider children, whose interests must be protected in the first place. The degree of commitment, on average, is higher amongst married couples than amongst cohabiting couples.

Robert Rowthorn applies the economic theory of signalling to marriage. In Western culture, marriage is viewed as a signal of a desire for a sexually exclusive permanent union between a man and a woman. However, modern legal and social trends change the insight people have towards this signal. This creates a major loss of information that makes it more difficult to evaluate the degree of commitment.

A different, yet appealing, question posed is whether the divorce rate has increased as the consequence of the marriage being an unfair deal for women. Homemaking is no longer a lifetime career for women as a group. Women often do a double shift: long hours of housework combined with paid work. Steven Nock and Margaret Bring estimate the risk of divorce associated with several variables. The estimated models confirm the known results of the surveys presented in the majority of the other chapters. Remarkable, however, is the significant effect of the household division of labour and the importance of perception of fairness about household tasks. They turn out to be of great significance. Marriages are strained when either husband or wife does the housework. However, when partners believe the division of labour to be unfair to the other partner disruption rates are lower than when things are seen as unfair to oneself.

Ian Smith contributes to the liberalisation of divorce laws across Europe. There is still relatively little recent comparative literature concerning Europe. The focus of his (last) chapter is on measures that minimise the social and economic costs of no-fault, separation-based marital dissolution.

The editors have done a great job at delivering this collection of analytical and rational contributions. The subtlety with which rather complex and diverse topics are discussed and the ability of the authors to dissolve the sensitivity and intricacy of such delicate topics is worthy of respect. Economics, political and legal theory together with other social sciences in general fail to communicate; the book is a rewarding attempt of finding a link.

H.A. Pott-Buter

Michael Bourne, John Mills, Andy Neely, Ken Platts, and Huw Richards, *Strategy and Performance: 3 Volume Set*, Cambridge University Press, Cambridge, 2002. 420 p. GBP 75.00 (ISBN 0 52175 032 6)

John Mills, Ken Platts, Andy Neely, Huw Richards, and Michael Bourne, *Strategy and Performance: Creating a Winning Business Formula*, Cambridge University Press, Cambridge, 2002. 124 p. GBP 29.95 (ISBN 0 52175 029 6)

Andy Neely, Michael Bourne, John Mills, Ken Platts, and Huw Richards, *Strategy and Performance: Getting the Measure of Your Business*, Cambridge University Press, Cambridge, 2002. 154 p. GBP 29.95 (ISBN 0 52175 031 8)

John Mills, Ken Platts, Michael Bourne, and Huw Richards, *Strategy and Performance: Competing through Competences*, Cambridge University Press, Cambridge, 2002. 192 p. GBP 29.95 (ISBN 0 52175 030 X)

When you have these three books in your hands, it is clear that they are related, but it takes some time to detect their logical order: first comes the business formula, then the measures, and last the focus on competences. The set also contains a CD with supporting material.

The first volume explains the basic principles of strategic thinking and decision making, looking at traditional aspects as product/market combinations, environment, objectives, making choices and implementation. The authors have chosen a remarkably practical approach. They pay much attention to putting the exercises into practice. In fact they say: here is a checklist of important things to look at, we explain why they are important, and we give you the formats to discuss them and to write down the answers. The formats are in the books as well as on CD. The reader might wonder if basic issues could be handled effectively in such a practical way. For instance: 'Embedding strategy-making into the culture' is explored in little more than two pages.

The second volume builds on the concepts and tools of the first one. It aims to provide managers and change agents with tools and techniques to implement performance measurement systems. The basic idea is: strategy is *defining* the performance, measurement *makes* performance and its drivers *visible*. Because monitoring is not an easy task, this practical guide is welcome. It elaborates performance measurement systems, and explains why they make sense: they help to clarify strategies, to communicate what should be the outcome, to check implementation and to test the feasibility of the strategy. The link between strategy and measurement is clearly maintained. Moreover, this volume works out how to organise, manage, and facilitate measurement procedures.

The first two volumes reflect the traditional 'positioning approach' of strategy, and give little attention to resources and competences, which are playing a more central role since the Resource / Competence-Based View stresses that a pure positioning strategy cannot be maintained long in turbulent environments. Thus knowing where you want to be, and knowing how you perform, is not enough. You also need to evaluate and develop capabilities on which sustainable competitive advantages can be founded, within current business objectives as well as linked to strategic changes. This subject is elaborated in the third volume in the characteristic style of the authors: they put forward transparent definitions, clear checklists, convincing illustrations, and suggestions to organise the process. An unavoidable question is, of course, how 'tacit knowledge' and hidden capabilities could be handled in the process. This issue is only indirectly addressed where the authors put forward the idea of 'micro-co-ordination' at the concrete level of how things are done. The volume is concluded by a chapter on the measurement of competences and resource development, which however proves to be difficult without looking at performance measures (see volume 2).

The books are typical 'workbooks,' developed with people who apply strategic concepts and approaches in practice. They aim at supporting managers and consultants in taking strategic decisions more systematically. Although it makes strategic management 'down to earth,' it still is 'strategic' in its orientation. The risk is that it can stay to close to practice.

Who could benefit most from these books? One might wonder if managers are always looking for transparency and simplicity in their striving for rational decision making. With other mindsets, they do not need the books. Or maybe they know all this elementary stuff already. Looking at my own experience I am inclined to believe that managers do not usually spend much time and energy on this type of exercise. Of course, this can be interpreted as an unfavourable condition or as an opportunity. In any case, the proposed approach is characterised by transparency, broad view, and participativeness. This can contribute to an improvement in strategic thinking and acting, but the investments, especially in time, can be substantial. Against this background the suggestion to work with a 'facilitator,' who can organise the process and the participation of managers efficiently, is absolutely to the point.

What value can these books have for teachers and students? Although I appreciate the transparency and inclusiveness of the books, I would not like to use them in my courses, because they will not help my students to discover deeper levels of thinking, analysing, and reflecting. The books are most useful to people who wish to apply theoretical insights to practice. Students still have to develop theoretical insights.

The CD contains an interactive package with workbooks, forms and blank tables, mostly in PDF format. 'Interactive' does not include a calculating or simulating model. The PDF resources can be filled out and saved, copied, and printed. It is not possible to move between the resource kit and your Word or PowerPoint application, because the programme cannot be left without completely closing it. The overall presentation does not look very logical and transparent, and navigating is frustrating. But if you just look for printable versions of the schemes in the book, it is useful.

Arnold Godfroij

Chris Brooks, *Introductory Econometrics for Finance*, University Press Cambridge, Cambridge, 2002. 728 p. GBP 29.95 (ISBN 0 521 79367 X)

The rapidly growing number of students in finance and financial econometrics has been accompanied by a corresponding increase in the number of textbooks on this subject area. According to the author of the present text, however, most textbooks are either too introductory or too advanced, and are too theoretical, failing to provide relevant empirical examples from finance. This textbook aims to remedy these deficiencies, by presenting an overview of modern econometric methods for financial economic research, illustrated with empirical applications drawn from the academic finance literature. It is my impression that the author has done an excellent job to achieve this goal. The book covers a broad spectrum of econometric tools that are highly relevant for financial applications. While the book does not require any prior knowledge concerning econometrics and discusses most models and techniques 'from scratch,' it does not stop after merely introducing them, but also gives ample attention to more advanced topics. Numerous detailed empirical examples are used to illustrate the different concepts and methods. An additional nice feature of the book is the detailed attention given to actual implementation of the econometric models and techniques in two widely-used software packages, RATS and EViews, by means of annotated computer code. Finally, the accompanying website at Cambridge University Press provides a detailed set of transparencies for each of the chapters in the book, making it readily available for teaching purposes.

Following the introductory chapters 1 and 2, chapters 3, 4 and 5 deal with the classical linear regression model, univariate linear stochastic processes, and ARIMA modelling, discussing both the basic concepts involved and more advanced topics such as parameter stability tests and non-nested hypotheses tests. Considerable attention is also given to different model-building philosophies and specification procedures for constructing such models in practice.

In chapter 6, the focus is shifted towards multivariate linear models. After showing the consequences of including endogenous variables as regressors in a single-equation model, the chapter clearly describes procedures to circumvent these problems by using simultaneous equations models. The popular vector autoregressive models are discussed as well, with an intuitive explanation of important concepts such as Granger causality and impulse response functions.

Chapter 7 proceeds with discussing nonstationarities in financial variables, and focuses especially on testing for the presence of unit roots. Nonstationarity in multivariate systems is discussed as well, along with an adequate discussion of cointegration, which is useful for modelling long-run equilibrium relationships between nonstationary variables such as spot and future prices of financial assets.

Chapter 8 covers the popular topic of volatility modelling and forecasting, focusing on GARCH models and nonlinear variants thereof.

In chapter 9, seasonal patterns in financial data, such as day-of-the-week and month-of-the-year effects, are discussed, as well as methods to handle these in linear regression models. The second part of this chapter provides an introduction to nonlinear regime-switching models, such as Markov Switching models and threshold models. The discussion here is really at the introductory level, while the interested reader is referred to other books and journal articles for the more technical details.

A complete chapter is then devoted to simulation techniques, which are highly important for applications such as option pricing and Value-at-Risk.

Finally, and very helpful for students, chapter 11 discusses how a research project in empirical finance can (or should) be conducted, covering essentially all stages of a project from formulating the research topic to the final presentation of the results.

The target audience of the book is identified as 'scholars and practitioners wishing to acquire an understanding of the latest research techniques and findings, and also graduate students wishing to research into financial markets.' Indeed, for many people in the above categories, the book is a useful starting point and reference guide for detailed examination of many fashionable topics in financial time series modelling. Also, the book appears to be very useful as a basic text for an advanced undergraduate or graduate course in empirical finance or financial econometrics, possibly supplemented with some journal articles on specific topics.

Dick van Dijk

Introductory Econometrics for Finance This bestselling and thoroughly classroom-tested textbook is a complete resource for finance students. A comprehensive and illustrated discussion of the most common empirical approaches in finance prepares students for using econometrics in practice, while detailed financial case studies help them understand how the techniques are used in relevant financial contexts.Â Chris Brooks is Professor of Finance and Director of Research at the ICMA Centre, Henley Business School, University of Reading, UK where he also obtained his PhD. He has diverse research interests and has published over a hundred articles in leading academic and practitioner journals, and six books.