the chosen characteristics to belong to the subset of very small countries. Again, simple composite measure may be useful to build clusters of countries with regard to several characteristics.

2.2 Size and smallness in model contexts

2.2.1 Small countries in international economics

The examination of small countries has a long tradition in international economics, and the concept has been extensively used in theoretical modeling. Note that the precise meaning of smallness in international economics and in this study differs profoundly. Conventionally, countries are denoted as small when they cannot affect world prices or interest rates (see, e.g., Mankiw, 1997). According to this definition, most countries in the world have to be considered as small. In this book we will employ a different definition of smallness, which is to be elaborated in Section 2.3.

To distinguish between different notions of smallness of countries, we like to refer to small countries or states according to our definition as «very small countries», henceforth abbreviated VSC. In view of other possible expressions (diminutive state, micro state, miniature state, dwarfish state, state fragment; see Erhardt, 1977, or Seiler, 1995) the expression «very small country» has the advantage – contrary to some of the above mentioned – of not having a pejorative overtone.

2.2.2 Smallness due to the utility gain

The definitions in this section have not been developed to define country size, but they may analogously be applied to country size.

2.2.2.1 Size in absolute terms

We commonly refer to the adjectives *small* and *large* in *absolute terms;* a notion that implies an idea about what to regard as small and what as large. Olson (1965, p. 35), who employs this notion, concludes that