



International

Economics

Second Edition

W. Charles Sawyer

Richard L. Sprinkle



International Economics

W. Charles Sawyer

University of Southern Mississippi

Richard L. Sprinkle

University of Texas at El Paso

PEARSON
Prentice
Hall

Upper Saddle River, NJ 07458

Library of Congress Cataloging-in-Publication Data

Sawyer, W. Charles.

International economics / W. Charles Sawyer, Richard L. Sprinkle.—2nd ed.

p. cm.

Includes bibliographical references and index.

ISBN 0-13-170416-8

1. International economic relations. 2. International finance. I. Sprinkle, Richard L.

II. Title.

HF1359.S299 2004

337—dc22

2004026009

Acquisitions Editor: Jon Axelrod

AVP/Executive Editor: David Alexander

VP/Editorial Director: Jeff Shelstad

Project Manager: Marie McHale

Editorial Assistant: Katy Rank

Media Project Manager: Peter Snell

Executive Marketing Manager: Sharon Koch

Marketing Assistant: Tina Panagiotou

Managing Editor (Production): Cynthia Regan

Production Editor: Denise Culhane

Permissions Coordinator: Charles Morris

Production Manager: Arnold Vila

Manufacturing Buyer: Diane Peirano

Design Director: Maria Lange

Designer: iDesign

Interior/Cover Design: iDesign

Cover Illustration/Photo: Photodisc

Illustrator (Interior): Carlisle Communications, Ltd.

Print Production Manager: Christy Mahon

Composition/Full-Service Project Management: Carlisle Communications, Ltd.

Typeface: 10/12 AGaramond

Credits and acknowledgments borrowed from other sources and reproduced, with permission, in this textbook appear on appropriate page within text.

Copyright © 2006, 2003 by Pearson Education, Inc., Upper Saddle River, New Jersey, 07458. Pearson Prentice Hall. All rights reserved. Printed in the United States of America. This publication is protected by Copyright and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or likewise. For information regarding permission(s), write to: Rights and Permissions Department.

Pearson Prentice Hall™ is a trademark of Pearson Education, Inc.

Pearson® is a registered trademark of Pearson plc

Prentice Hall® is a registered trademark of Pearson Education, Inc.

Pearson Education LTD.

Pearson Education Singapore, Pte. Ltd

Pearson Education, Canada, Ltd

Pearson Education—Japan

Pearson Education Australia PTY, Limited

Pearson Education North Asia Ltd

Pearson Educación de México, S.A. de C.V.

Pearson Education Malaysia, Pte. Ltd



10 9 8 7 6 5
ISBN 0-13-170416-8

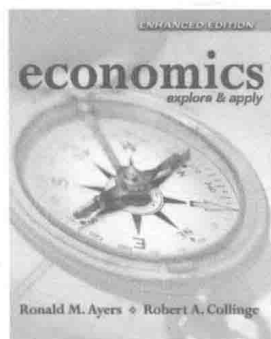
Prentice Hall

ECONOMICS

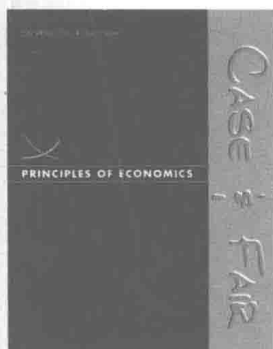
Principles of Economics:

Ayers/Collinge, Economics: Explore & Apply Enhanced Edition

Case/Fair, Principles of Economics 7e



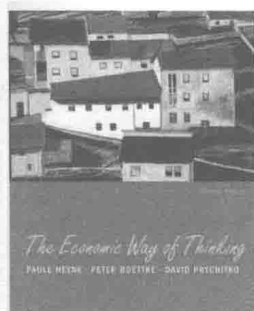
O'Sullivan/Sheffrin, Economics: Principles and Tools 4e



Survey of Economics:

Collinge/Ayers, Economics by Design: Survey and Issues 3e

Farnham, Economics for Managers



Heyne/Boettke/Prychitko, The Economic Way of Thinking 11e

O'Sullivan/Sheffrin, Survey of Economics: Principles and Tools 2e

Macroeconomics:

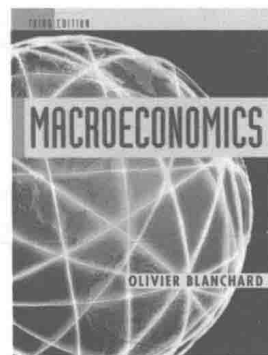
Ayers/Collinge, Macroeconomics: Explore & Apply, Enhanced Edition

Blanchard, Macroeconomics 3e

Case/Fair, Principles of Macroeconomics 7e

Colander/Gamber, Macroeconomics

Froyen, Macroeconomics: Theories and Policies 8e



O'Sullivan/Sheffrin, Macroeconomics: Principles and Tools 4e

Microeconomics:

Ayers/Collinge, Microeconomics: Explore & Apply, Enhanced Edition

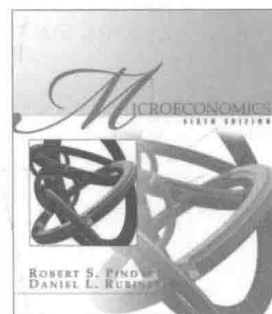
Case/Fair, Principles of Microeconomics 7e

Eaton/Eaton/Allen, Microeconomics 5e

Mathis/Koscianski, Microeconomic Theory: An Integrated Approach

O'Sullivan/Sheffrin, Microeconomics: Principles and Tools 4e

Pindyck/Rubinfeld, Microeconomics 6e



Managerial Economics:

Keat/Young, *Managerial Economics* 4e

Milgrom/Roberts, *Economics, Organization, and Management*

Petersen/Lewis, *Managerial Economics* 5e

Other Titles:

Adams/Brock, *The Structure of American Industry* 11e

Blau/Ferber/Winkler, *The Economics of Women, Men, and Work* 4e

Boardman/Greenberg/Vining/Weimer, *Cost Benefit Analysis: Concepts and Practice* 2e

Bogart, *The Economics of Cities and Suburbs*

Cole/Grossman, *Principles of Law and Economics*

DiPasquale/Wheaton, *Urban Economics and Real Estate Markets*

Folland/Goodman/Stano, *Economics of Health and Health Care* 3e

Fort, *Sports Economics*

Greene, *Econometric Analysis* 5e

Heilbroner/Milberg, *The Making of Economic Society* 11e

Hess, *Using Mathematics in Economic Analysis*

Lynn, *Economic Development: Theory and Practice for a Divided World*

Reynolds/Masters/Moser, *Labor Economics and Labor Relations* 11e

**Roberts, *The Choice: A Fable of Free Trade and Protectionism*
Revised Edition**

Schiller, *The Economics of Poverty and Discrimination* 9e

Weidenbaum, *Business and Government in the Global Marketplace* 7e

For more information on these titles and the rest of Prentice Hall's best-selling Economics list, please visit www.prenhall.com/economics

About the Authors

W. Charles Sawyer is a Professor of Economics and International Business at the University of Southern Mississippi. He earned both a B.A. and M.A. from St. Mary's University and a Ph.D. from the University of Arkansas. He has also taught at the University of Arkansas, Louisiana State University, and the Helsinki School of Economics and Business. In addition to his academic teaching, he has taught in a number of executive development programs for both the public and private sectors. He has served as a consultant for the United Nations Industrial Development Organization and the United Nations Conference on Trade and Development.

Professor Sawyer's primary research interests have been in the areas of international trade and economic development. He has authored or co-authored a number of research articles that have appeared in journals such as the *Review of Economics and Statistics*, the *Journal of Regional Science*, *Economic Development and Cultural Change*, and *Weltwirtschaftliches Archiv*. His current research focuses on the effects of international trade on U.S. states and regions. He is a member of the American Economic Association and the International Economics and Finance Society.

Richard L. Sprinkle is a Professor of Economics at the University of Texas at El Paso. Professor Sprinkle holds a Ph.D. in Economics from the University of Arkansas with specializations in international economics, international finance, and applied econometrics. He currently teaches macroeconomics, econometrics, and international economics. Over the last 25 years he has been affiliated with the College of the Ozarks, Louisiana State University, the Helsinki School of Economics and Business, the University of Arkansas, and the University of Texas at El Paso.

Professor Sprinkle's research has focused on U.S. international trade relations and the effects of trade agreements on trade and employment. He has published numerous journal articles, book chapters, and technical documents. Professor Sprinkle is a co-author of two books *The Demand for Imports and Exports in the World Economy* and *Regional Case Studies in International Business and Strategic Policy*. Both his teaching and research have been recognized by a number of professional awards. Professor Sprinkle is the former Director of the Center for the Study of Western Hemispheric Trade at UTEP and currently holds the Western Hemispheric Trade Research Professorship.

Preface

It is difficult to get through a day without the world economy touching our lives in some way. Everyday, we spend much of our time either consuming goods and services from or producing goods and services for other countries. Our exposure to the language of international economics is pervasive as terms like the exchange rate, the trade balance, the WTO, or NAFTA frequently appear in newspapers, magazines, news programs, and the Internet. In addition, the profitability of many businesses depends on their ability to effectively manage an increasingly global business environment. Governments also must deal with the world economy's influence on public policy. In most countries, international trade in goods and services is becoming an increasingly large percentage of total economic activity. As a result, national governments need to consider the international implications of their policies. Despite the growing importance of international economics, general knowledge about the subject is often superficial at best. This lack of understanding has resulted in an increasing number of students who are enrolling in international economics courses.

Audience: A Diverse Mix of Students

Until recently, international economics was a course that only economics majors who had completed courses in intermediate microeconomic and macroeconomic theory took. As international economics has become a more important subject in business, government, and our daily lives, the enrollment in international economics courses has been increasing. This increase is not due to a sudden boom in the number of economics majors. Rather, it is related to the growing number of students taking the course who are *not* majoring in economics. Many business majors now take international economics as part of their core degree requirements, and the course has become a common elective course for MBA students attempting to get a more global perspective on business problems. The international economics course is a natural part of the curriculum for liberal arts students majoring in international or regional studies. Finally, an increasing number of political science or public administration students take the course as global economic conditions may have important effects on the public sector. The diversity of students enrolled in international economics today is the main reason why we wrote *International Economics*.

Approach: Preparing Students for Successful Careers

Most international textbooks are written with two unstated assumptions. The first is that the students enrolled in the course are economics majors. The second is that

most students need to learn international economics in a way that prepares them to take the *next* course in international economics. Increasingly, neither of these assumptions is correct as an ever-larger percentage of the students taking this course are not economics majors. Further, the vast majority of economics majors are not planning to attend graduate school in economics. The typical economics major is headed for law school, an MBA program, or a career. Even a book designed to prepare students for graduate work in economics is not likely to serve the interests of economics majors much less nonmajors.

The reality is that most students studying international economics need to prepare for success in their chosen careers. To us this means two things. First, students need to learn the parts of international economic theory that they will most likely need to know for a career in the public or private sector. Second, learning some theory will not do these students much good if they cannot apply it. This book's approach is to apply basic economic theory to international economic issues. In one sense, the approach in *International Economics* is simpler because it is less purely theoretical. However, learning some economic theory, what the theory *means*, and how to use it is not so easy.

Our approach is driven by what we are trying to accomplish. Most students entering this course have only a vague understanding of the terminology associated with international economics. The main goal of *International Economics* is to guide students to the point at which they can easily understand any information on international economics that they may encounter in their careers. If students can understand and apply international economics, then they have a good chance of having a more successful career. Both of us have spent some time teaching in executive MBA programs and have found that the average midcareer manager knows little more about international economics than the typical junior in college. This lack of knowledge makes them uncomfortable and in many cases, may be costing them higher salaries and/or promotions. These students have been invaluable in teaching us what our younger students need to know before they start their careers: basic theory and how to apply it.

Pedagogy: Teaching and Applying Theory

Most international economics textbooks are trying, in varying degrees, to do three things. First, they are teaching some new theoretical tools. Second, they are teaching students how to apply these tools in a "real world" context. Finally, they are preparing students for further study in international economics. But teaching international economics to a diverse group of majors using a book designed for economics majors is like trying to juggle too many balls: It can lead to a lot of frustration. To make the course easier to teach and more useful to the new students taking this course, we have adopted a different pedagogical approach to the subject. Because most students taking this course have either had a one-semester survey course or the traditional two-semester principles of microeconomics and macroeconomics, the theory we use throughout this book to analyze economics is the same theory students have already learned in principles of economics. This approach accomplishes two things. First, instructors have to teach little if any "new" theory. This allows them to move at a much faster pace and cover much

more of the subject than would be the case if they spent a substantial amount of class time teaching theory that many of the students have not been prepared to easily learn. Second, it becomes much easier to focus on applying the theory. Since the students are seeing the theory for the “second” time, they can spend more time on learning how to apply the theory and use it in their careers.

The book employs a number of pedagogical features to reinforce this basic approach.

- ❑ The book is written in a user-friendly style that emphasizes how to use international economic theory and where to apply it.
- ❑ Students can’t possibly comprehend international economics unless they know the specialized terms of the discipline. That’s why we define important terms in the margins. The margin definitions provide a quick way for students to recognize the terms that are important to know. In addition, students may not always have time to read the entire chapter before class and studying the margin terms beforehand should improve their understanding of it.
- ❑ We can’t assume that students will remember everything they learned in their principles of economics course. That’s why we provide a quick review of economic principles at key points in the text. This gives instructors the flexibility to review the material in class or to let students review the material on their own. To accommodate those students who have had only the one-semester survey course (which is usually less oriented toward macroeconomics), these reviews are more extensive in the second half of the book.
- ❑ Although applications of international economics are liberally distributed throughout the text, each chapter includes a number of boxes that provide more extensive examples or applications of the previously described theory.
- ❑ The end-of-chapter questions accomplish two things. First, many of the questions are designed to encourage students to describe what they know in their own words. This allows them to discover what they *don’t* know before it really matters (i.e., an exam). Second, the remaining questions are designed to motivate students to either apply the theory and/or to think about issues that the theory implies.
- ❑ Each chapter ends with a “Suggested Readings and Web Sites” section. These sections provide students with options for exploring both traditional and Internet-based sources of information on the concepts they’ve learned in the chapter. For instructors who want to assign out-of-class coursework, these sections enable them to easily direct students to the information needed for these assignments. Unlike most books, the readings in these sections are easily accessible for undergraduate students as the primary sources are publications such as *The Economist*, *The Wall Street Journal*, *The New York Times*, *The Financial Times*, *Newsweek*, *Business Week*, *Fortune*, and *Forbes*.

Features: Content that Makes a Difference

Beyond the book's basic approach and pedagogy, *International Economics* contains some content-oriented features that represent a somewhat different approach to teaching the course.

- **Data**—The world of international economics is full of numerical data. However, this is not always reflected in the way international economics textbooks teach the subject. In this book, there is a more extensive presentation of international economic data than is usually the case. For example, it is quite possible for an international economics text to neglect to mention the size of the world economy. In *International Economics* that number is just the starting point for discussing other types of international economic data. However, in the discipline of international economics, the numbers can seem, at first glance, to be implausibly large. To remedy these perceptual problems, we put the data into perspective with regard to national economies and the world economy so that students can see how international economic data compares with national economies and the world economy. For example, learning that U.S. exports are over \$1 trillion is a useful thing to know. If you also learn that the size of the U.S. economy is \$10 trillion and the size of the world economy is \$32 trillion, then the information on U.S. exports has more meaning. Students learn not only how large exports are, but how they fit into the economy overall.
- **Intraindustry Trade**—Intraindustry trade has become an extremely important part of total international trade. The explanations for this type of trade are different than those used to explain interindustry trade. To adequately cover both the phenomenon and its explanations, intraindustry trade is covered in a separate chapter (Chapter 4).
- **Factor Movements**—The international movements of labor and capital play a critical role in the world economy. Immigrants are now a large part of the population in many developed countries, and firms building plants and investors buying stocks and bonds in other countries are just a normal part of the global business environment. The importance of these labor and capital movements is one of the reasons why we cover factor movements in a separate chapter early in the book (Chapter 5). Since the factors that drive these movements can be related to the traditional explanations of international trade, the early placement of this chapter makes the material easier to teach and learn.
- **Public Choice**—Tariff and nontariff barriers to trade are policies made in a political market. Students need to know not only what effects these barriers have on trade but also why they exist in the first place. The chapter on public choice (Chapter 8) is designed to explain the process that leads to trade barriers. This chapter also enables students to better understand both today's trade policy debates and those they will no doubt encounter during their careers.

- ❑ **The Relationship between the Current Account and Capital Account**—In addition to the traditional emphasis on the current account, *International Economics* highlights the role of the capital account. The discussion focuses on the relationship among the current account, the capital account, GDP, and the components of GDP. These relationships are identified first in Chapter 11 and are an integral part of the discussion of open economy macroeconomics in Chapters 16 through 19.
- ❑ **Asset Market Approach to Exchange-Rate Determination**—The approach we use to explain the determination of exchange rates is the modern asset market approach. The focus is on how interest rates and other factors cause short-run changes in exchange rates. Chapter 15 on purchasing power parity emphasizes the modern asset market approach as a useful reference point in analyzing commonly used terms such as “overvalued” or “undervalued” exchange rates.
- ❑ **Open Economy Macroeconomics**—The focus of *International Economics* is on how changes in the exchange rate affect output and the price level. In much of our discussion we assume that the exchange rate and the current account are usually allowed to adjust to macroeconomic policies aimed at inflation and unemployment. This allows the discussion to be more representative of macroeconomic policy in most countries.
- ❑ **Fixed vs. Flexible Exchange Rate Systems**—Despite the wide use of flexible exchange rate systems, fixed exchange rates are still an important part of the international monetary system. However, there are newer forms of fixed exchange rate systems such as currency boards and monetary unions that countries are now using to replace more traditional ways of fixing the exchange rate. In order to cover both exchange rate systems adequately, *International Economics* covers flexible and fixed exchange rate systems separately in Chapters 17 and 18, respectively. Chapter 19 summarizes the discussion as a choice entailing different mixes of costs and benefits.

Changes in the Second Edition Most of the changes in the second edition are related to the primary purpose of the book. Our intention has always been to teach international economics in a way that will enhance the ability of students to use what they learn during their careers. In the second edition this led to two significant changes. The first change is the addition of two new chapters on international trade and economic development. Chapter 10 covers the relationship between international trade and economic development. The first part of the chapter covers the basic theory of economic growth. The theory is then used to show how openness to both trade and FDI enhances economic growth. The second part of the chapter examines various economic growth strategies and relates them to the theory covered in the first part of the chapter. The final section discusses official development assistance and the institutions involved in providing it. Chapter 20 deals with the relationships between capital flows and economic development. The first part of the chapter is a detailed look at the reasons for capital flows to the

developing countries. The focus of the second part of the chapter is on the macroeconomic difficulties that changes in these inflows can cause. The final part of the chapter covers the relationship between the IMF and the developing countries in the post Bretton Woods era. The focus of both new chapters is to help students understand articles on the developing countries they are likely to see in common business publications.

In addition to two new chapters, a number of other significant changes have been made to make the book easier and/or more flexible to use. Chapter 2 now contains an example of trade in a single product to help introduce the concept of comparative advantage. The discussion of U.S. trade policy in Chapter 8 has been reinforced with the added sections on antidumping, countervailing duties, and the escape clause. This chapter now ends with a section on the difficulties associated with the Doha Round and the future of WTO negotiations. Chapter 9 on Regional Trade Agreements contains a complete discussion of future U.S. trade agreements and an expanded section on the EU that includes the most recent enlargement. The second part of the book has been modified in several ways. Chapter 11 includes some of the recent modifications to the reporting of the U.S. balance of payments. A new section in Chapter 13 covers the concept of exchange rate pass through. Chapters 14 and 15 have been modified to shorten the coverage of interest rates and the exchange rate, purchasing power parity, and the real exchange rate.

Alternative Course Designs *International Economics* was designed to be used in two commonly used course formats. The first half of the book on international trade, factor movements, and trade and economic development are frequently covered in most international economics courses. The final ten chapters on international finance can be divided into at least three parts: national income accounting and exchange rate determination; purchasing power parity and the real exchange rate; and open economy macroeconomics. The result is that instructors have the flexibility to design a course appropriate for both the content of the course and the background of the students.

The traditional international economics course is a one-semester course covering both international trade and finance. Students in this course normally are either majoring in economics or in a related discipline such as finance or international business. *International Economics* was written concisely to allow instructors to finish all of the chapters and/or omit chapters in order to cover readings or other material. In this type of course Chapter 5 (International Factor Movements), Chapter 10 (International Trade and Economic Growth), Chapter 12 (International Transactions and Financial Markets), or Chapter 20 (Capital Flows and the Developing Countries) could be omitted without loss of continuity.

It is increasingly common for International Economics to be taught as a one-semester "Survey" course to classes where the majority of students are not majoring in economics. *International Economics* also was designed to accommodate this type of course. Throughout the book, the basic material is presented using only the tools the students learned in principles of economics. The more technical points are always covered in separate sections to allow instructors to move at a faster pace by omitting this material. Most courses of this type are more heavily weighted toward international trade and add some international finance at the end of the

course. The book is organized to allow instructors to cover all of the essential parts of international trade. The second half of the text was written to allow for flexibility of coverage in international finance. The ten chapters on international finance can be considered in a number of different ways. Chapters 11, 13, and 16 cover the “core” topics of the balance of payments, exchange rate determination, and open economy macroeconomics. These chapters can be combined with groups of other chapters to produce a course with a focus on exchange rates, open economy macroeconomics, or a combination of the two. Adding Chapters 12, 14, 15, and 19 produces a course with a focus on exchange rates. A course with a focus on open economy macroeconomics can be obtained by covering Chapters 17 through 20. A blend of the two topics can be covered by adding Chapters 14, 15, 17, and 19. These alternatives are shown at the end of the Preface.

Supplementary Materials

Instructor’s Manual with Testbank. The Instructor’s Manual with Testbank contains a chapter outline and summary for each chapter, answers to end-of-chapter questions, lecture suggestions, and a complete bank of questions for quizzes and tests. The **TestGen-EQ test generating software** allows instructors to custom design, save, and generate classroom tests. The test program allows instructors to edit, add, or delete questions from the test banks; edit existing graphics and create new graphics; analyze test results; and organize a database of tests and student results. This software allows for greater flexibility and ease of use. It provides many options for organizing and displaying tests, along with a search and sort feature. The software, as well as the Testbank is available for download from the link for the **Instructor Resource Center** on the book’s Companion Web site.

The **Companion Web site** (www.prenhall.com/sawyer) is a Web site with resources related specifically to *International Economics*. **For Students**, the **Online Study Guide** offers another opportunity for them to sharpen their problem-solving skills and to assess their understanding of the text material. The Online Study Guide grades each question submitted by the student, provides immediate and detailed feedback for correct and incorrect answers, and allows students to e-mail results to up to four e-mail addresses. **For instructors**, the Companion Web site contains the **Syllabus Manager** which allows instructors to create a syllabus that they may publish for their students to access. Instructors may add exams or assignments of their own, edit any of the student resources available on the Companion Web site, post discussion topics, and more. Instructors may find **downloadable resources** (including the **Instructor’s Manual, Testbank, TestGen EQ software**, and **PowerPoint Presentations**) from the link on the site for the **Instructor Resource Center**.

PowerPoint Lecture Presentation: This lecture presentation tool offers outlines and summaries of important text material, tables and graphs that build, and additional exercises. The package will allow for instructors to make full-color, professional-looking presentations while providing the ability for custom handouts to be provided to the students. Instructors may download the **PowerPoint Presentations** from the link for the **Instructor Resource Center** at www.prenhall.com/sawyer.

Acknowledgments

During the writing and revising of this book, we received a number of both small and large comments from reviewers that have improved both the economic content and the method of presentation. The following list of reviewers is presented not just as a formality but also as a way of saying thanks for all the help.

Richard V. Adkisson,
New Mexico State University

David Lehr,
Longwood College

Richard T. Bailie,
Michigan State University

Bozena Leven,
The College of New Jersey

Peter Brust,
University of Tampa

Jacquelynne W. McLellan,
Frostburg State University

William W. David,
Western Kentucky University

Shannon Mitchell,
Virginia Commonwealth University

Elynor Davis,
Georgia Southern University

Franklin G. Mixon, Jr.
University of Southern Mississippi

Harmut Fisher,
University of San Francisco

Masoud Moghaddam,
St. Cloud State University

Ira Gang,
Rutgers University

Anthony Negbenebor,
Gardner-Webb University

Thomas Grennes,
North Carolina State University

Dorothy Petersen,
Washington University

Darrin Gulla
University of Georgia

Reza Ramazani,
St. Michael's College

Andrew T. Hill,
Federal Reserve Bank of Philadelphia

Michael Ryan,
Western Michigan State University

S. Hussain Ali Jafri,
Tarleton State University

Jeff Sarabaum,
UNC at Greensboro

William Laird,
Florida State University

Gerald P.W. Simons,
Grand Valley State University

Anil Lal,
Pittsburgh State University

Carol Ogden Stivender,
UNC at Charlotte

Leonie Stone,
SUNY-Geneseo

James Swofford,
University of South Alabama

Charlie Turner,
Old Dominion University

Laura Wolff,
*Southern Illinois University-
Edwardsville*

George K. Zestos,
Christopher Newport University

Writing a book involves the accumulation of a number of debts. First, this includes the following colleagues and friends. We would like to thank Don Clark of the University of Tennessee for discussions on a number of points in international trade that show up in the first part of the book. Several colleagues at the University of Southern Mississippi have contributed to the book. Tyrone Black is the author of the diagram on intraindustry trade in Chapter 4; James McQuiston taught us much of what is contained in Chapter 8. Several users of the first edition have provided useful comments on various points. These include James Dunlevy of Miami University of Ohio; Isobel Lobo of Benedictine University; and Sunny Wong of the University of Southern Mississippi. We are deeply indebted to a number of people at Prentice Hall that have worked to make this a better book. Rod Banister (Executive Editor) was instrumental in making the first edition possible and Gladys Soto (Managing Editor) took care of the maze of details involved in getting a rough draft into a usable book. Rebecca Johnson (Development Editor) did a great job of adding clarity and conciseness to the writing. The second edition has greatly benefited from the work and enthusiasm of David Alexander (Executive Editor) and Sharon Koch (Executive Marketing Manager). Marie McHale (Project Manager) managed most of the details of the second edition with the assistance of Katy Rank (Editorial Assistant). Denise Culhane (Production Editor) was responsible for getting the manuscript into the form you're reading. Our debt to all of these people is immense.

Finally, there are a couple of acknowledgments that go beyond the narrow confines of a textbook. We would like to thank Tracy Murray for both his instruction and support for more years than any of us would like to recall. In a different vein, we owe debts to our families who have put up with not only this book, but a lot of other "projects" over the years. Without their support, none of this work would have been possible.

ALTERNATIVE COURSE DESIGNS

INTERNATIONAL TRADE	Core	Focus on Trade and Factor Movements	Focus on Trade and Development
1 Introduction: An Overview of the World Economy	X		
2 Why Countries Trade	X		
3 Factor Endowments and the Commodity Composition of Trade	X		
4 Intraindustry Trade	X		
5 International Factor Movements		X	
6 Tariffs	X		
7 Nontariff Distortions to Trade	X		
8 International Trade Policy	X		
9 Regional Economic Arrangements	X		
10 International Trade and Economic Growth			X

ALTERNATIVE COURSE DESIGNS (SEQUENTIAL) — INTERNATIONAL TRADE

Complete International Trade Coverage	Focus on Trade and Factor Movements	Focus on Trade and Development
1 Introduction: An Overview of the World Economy	1 Introduction: An Overview of the World Economy	1 Introduction: An Overview of the World Economy
2 Why Countries Trade	2 Why Countries Trade	2 Why Countries Trade
3 Factor Endowments and the Commodity Composition of Trade	3 Factor Endowments and the Commodity Composition of Trade	3 Factor Endowments and the Commodity Composition of Trade
4 Intraindustry Trade	4 Intraindustry Trade	4 Intraindustry Trade
5 International Factor Movements	5 International Factor Movements	6 Tariffs
6 Tariffs	6 Tariffs	7 Nontariff Distortions to Trade
7 Nontariff Distortions to Trade	7 Nontariff Distortions to Trade	8 International Trade Policy
8 International Trade Policy	8 International Trade Policy	9 Regional Economic Arrangements
9 Regional Economic Arrangements	9 Regional Economic Arrangements	10 International Trade and Economic Growth
10 International Trade and Economic Growth		

ALTERNATIVE COURSE DESIGNS

INTERNATIONAL FINANCE	Core	Focus On Exchange Rates	Focus on Open Economy Macroeconomics	Basics of Exchange Rates and Open Economy Macroeconomics
11 National Income Accounting and the Balance of Payments	X			
12 International Transactions and Financial Markets		X		
13 Exchange Rates and Their Determination: A Basic Model	X			
14 Money, Interest Rates, and the Exchange Rate		X		X
15 Price Levels and Exchange Rates in the Long Run		X		X
16 Output and the Exchange Rate in the Short Run	X			
17 Macroeconomic Policy and Floating Exchange Rates			X	X
18 Fixed Exchange Rates and Currency Unions			X	X
19 International Monetary Arrangements		X	X	
20 Capital Flows and the Developing Countries			X	

ALTERNATIVE COURSE DESIGNS (SEQUENTIAL) — INTERNATIONAL FINANCE

Focus on Exchange Rates	Focus on Open Economy Macroeconomics	Basic Exchange Rates and Open Economy Macroeconomics
11 National Income Accounting and the Balance of Payments	11 National Income Accounting and the Balance of Payments	11 National Income Accounting and the Balance of Payments
12 International Transactions and Financial Markets	13 Exchange Rates and Their Determination: A Basic Model	13 Exchange Rates and Their Determination: A Basic Model
13 Exchange Rates and Their Determination: A Basic Model	16 Output and the Exchange Rate in the Short Run	14 Money, Interest Rates, and the Exchange Rate
14 Money, Interest Rates, and the Exchange Rate	17 Macroeconomic Policy and Floating Exchange Rates	15 Price Levels and Exchange Rates in the Long Run
15 Price Levels and Exchange Rates in the Long Run	18 Fixed Exchange Rates and Currency Unions	16 Output and the Exchange Rate in the Short Run
16 Output and the Exchange Rate in the Short Run	19 International Monetary Arrangements	17 Macroeconomic Policy and Floating Exchange Rates
19 International Monetary Arrangements	20 Capital Flows and the Developing Countries	18 Fixed Exchange Rates and Currency Unions