

# 国际经济学

[第5版]

影印版

International  
Economics



- Steven Husted
- Michael Melvin



高等教育出版社  
Higher Education Press



Pearson Education  
出版集团

# 国际经济学

[第5版]

影印版

International  
Economics

- Steven Husted
- Michael Melvin



高等教育出版社  
Higher Education Press



Pearson Education  
出版集团

图字:01-2002-3785号

English reprint edition copyright © 2002 by PEARSON EDUCATION NORTH ASIA LIMITED and HIGHER EDUCATION PRESS. (International Economics from Addison Wesley Longman, Inc.'s edition of the Work)

*International Economics*, 5e by Steven Husted and Michael Melvin, Copyright © 2001.

All Rights Reserved.

Published by arrangement with the original publisher, Pearson Education, Inc., publishing as Addison Wesley Longman, Inc.

This edition is authorized for sale only in the People's Republic of China (excluding the Special Administrative Regions of Hong Kong and Macau).

图书在版编目(CIP)数据

国际经济学 = International Economics / (美) 哈  
斯泰德 (Husted, S.). —影印本. —北京: 高等教育  
出版社, 2002.9

ISBN 7-04-011674-X

I. 国... II. 哈... III. 国际经济学 - 英文  
IV. F11-0

中国版本图书馆 CIP 数据核字 (2002) 第 069693 号

国际经济学

史蒂文·哈斯泰德

出版发行 高等教育出版社  
社 址 北京市海淀区沙滩后街 55 号  
邮政编码 100029  
传 真 010-64014048

购书热线 010-64054588  
免费咨询 800-810-0598  
网 址 <http://www.hep.edu.cn>  
<http://www.hep.com.cn>

经 销 新华书店北京发行所  
印 刷 北京未来科学技术研究所  
有限责任公司印刷厂

开 本 787×1092 1/16  
印 张 37  
字 数 860 000

版 次 2002 年 9 月第 1 版  
印 次 2002 年 9 月第 1 次印刷  
定 价 38.50 元

本书如有缺页、倒页、脱页等质量问题,请到所购图书销售部门联系调换。

本书封面贴有 Pearson Education 出版集团激光防伪标签,无标签者不得销售

版权所有 侵权必究

# 出版前言

为适应经济社会发展的需要,以高质量的高等教育迎接经济全球化和新科技革命的挑战,培养数以千万计的高质量专门人才,教育部明确要求各高等院校创造条件使用英语等外语进行公共课和专业课教学,从而缩短我国在有关专业教学上与国际先进水平的差距,同时不断提升我国大学生的外语水平。其中一个重要的措施是在高等学校推动使用外语优秀教材。

为使高校学生能够及时使用世界先进水平的经济管理类新教材,高等教育出版社受教育部高教司委托,聘请熟悉国内外教学和学科发展水平的专家,从欧美现行教材中遴选、引进了这批具有国际领先水准的英文版教材,以影印形式出版,供开设相应课程的高等学校选用。

引进这批教材时,遴选和评定的依据主要有以下几个方面:(1)引进的教材与1998年教育部颁行的专业目录及后来批准的目录外专业所规定的主要课程相对应,内容符合专业培养目标和教学要求。(2)版本要新。国外的大学教科书一般三年左右即修订再版一次,增补新的内容。这批教材选择的都是国外权威教科书的最新版本,内容涵盖了相应学科最新进展的介绍和现实案例的分析。(3)内容规范简明,适合教学。由于这批影印教材主要是针对我国大学本科层次经济管理类专业的基础课程和主干课程的,专家们在选择时充分考虑了内容的严谨、规范以及表述的准确性,同时考虑了使用外语教材可能遇到的课时限制问题,在内容相同的几种流行版本中选择相对简明的薄本。另外,按照教育部的要求,这批教材的定价采取了与国内版教材相同的标准。

由于这批教材的作者所在国家的经济、政治、社会文化等与我国均有所不同,书中内容和观点难免有偏颇和错误之处,希望读者在阅读时注意鉴别。

我们希望这批影印教材的出版,对各高等院校的经济管理类专业的教学有所促进和帮助。

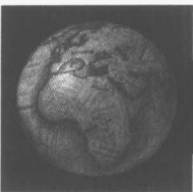
高等教育出版社

2002年9月

# The Addison-Wesley Series in Economics

---

- |  |  |  |
|--|--|--|
| <b>Abel/Bernanke</b><br><i>Macroeconomics</i>  | <b>Gibson</b><br><i>International Finance</i>  | <b>Parkin/Bade</b><br><i>Economics in Action Software</i>  |
| <b>Berndt</b><br><i>The Practice of Econometrics</i>   | <b>Gordon</b><br><i>Macroeconomics</i>   | <b>Perloff</b><br><i>Microeconomics</i>  |
| <b>Bierman/Fernandez</b><br><i>Game Theory with Economic Applications</i>  | <b>Gregory</b><br><i>Essentials of Economics</i>                                       | <b>Phelps</b><br><i>Health Economics</i>   |
| <b>Binger/Hoffman</b><br><i>Microeconomics with Calculus</i>   | <b>Gregory/Stuarts</b><br><i>Russian and Soviet Economic Performance and Structure</i> | <b>Riddell/Shackelford/Stamos</b><br><i>Economics: A Tool for Critically Understanding Society</i> |
| <b>Boyer</b><br><i>Principles of Transportation Economics</i>  | <b>Griffiths/Wall</b><br><i>Intermediate Microeconomics: Theory and Applications</i>   | <b>Ritter/Silber/Udell</b><br><i>Principles of Money, Banking, and Financial Markets</i>           |
| <b>Branson</b><br><i>Macroeconomic Theory and Policy</i>   | <b>Hartwick/Olewiler</b><br><i>The Economics of Natural Resource Use</i>               | <b>Rohlf</b><br><i>Introduction to Economic Reasoning</i>  |
| <b>Bruce</b><br><i>Public Finance and the American Economy</i>   | <b>Hubbard</b><br><i>Money, the Financial System, and the Economy</i>                  | <b>Ruffin/Gregory</b><br><i>Principles of Economics</i>  |
| <b>Burgess</b><br><i>The Economics of Regulation and Antitrust</i>   | <b>Hughes/Cain</b><br><i>American Economic History</i>                                 | <b>Salvatore</b><br><i>Microeconomics</i>  |
| <b>Byrns/Stone</b><br><i>Economics</i>   | <b>Husted/Melvin</b><br><i>International Economics</i>                                 | <b>Sargent</b><br><i>Rational Expectations and Inflation</i>                                       |
| <b>Carlton/Perloff</b><br><i>Modern Industrial Organization</i>  | <b>Jehle/Reny</b><br><i>Advanced Microeconomic Theory</i>                              | <b>Scherer</b><br><i>Industry Structure, Strategy, and Public Policy</i>                           |
| <b>Caves/Frankel/Jones</b><br><i>World Trade and Payments: An Introduction</i>                                     | <b>Klein</b><br><i>Mathematical Methods for Economics</i>                              | <b>Schotter</b><br><i>Microeconomics</i>   |
| <b>Chapman</b><br><i>Environmental Economics: Theory, Application, and Policy</i>                                  | <b>Krugman/Obstfeld</b><br><i>International Economics: Theory and Policy</i>           | <b>Sherman/Kolk</b><br><i>Business Cycles and Forecasting</i>                                      |
| <b>Cooter/Ulen</b><br><i>Law and Economics</i>   | <b>Laidler</b><br><i>The Demand for Money: Theories, Evidence, and Problems</i>        | <b>Smith</b><br><i>Case Studies in Economic Development</i>  |
| <b>Copeland</b><br><i>Exchange Rates and International Finance</i>   | <b>Lesser/Dodds/Zerbe</b><br><i>Environmental Economics and Policy</i>                 | <b>Studenmund</b><br><i>Using Econometrics</i>   |
| <b>Downs</b><br><i>An Economic Theory of Democracy</i>   | <b>Lipsey/Courant/Ragan</b><br><i>Economics</i>  | <b>Su</b><br><i>Economic Fluctuations and Forecasting</i>  |
| <b>Eaton/Mishkin</b><br><i>Online Readings to Accompany The Economics of Money, Banking, and Financial Markets</i> | <b>McCarty</b><br><i>Dollars and Sense: An Introduction to Economics</i>               | <b>Thomas</b><br><i>Modern Econometrics</i>  |
| <b>Ehrenberg/Smith</b><br><i>Modern Labor Economics</i>  | <b>Melvin</b><br><i>International Money and Finance</i>                                | <b>Tietenberg</b><br><i>Environmental and Natural Resource Economics</i>                           |
| <b>Ekelund/Tollison</b><br><i>Economics: Private Markets and Public Choice</i>                                     | <b>Miller</b><br><i>Economics Today</i>  | <b>Tietenberg</b><br><i>Environmental Economics and Policy</i>                                     |
| <b>Fusfeld</b><br><i>The Age of the Economist</i>  | <b>Miller/Benjamin/North</b><br><i>The Economics of Public Issues</i>                  | <b>Todaro</b><br><i>Economic Development</i>   |
| <b>Gerber</b><br><i>International Economics</i>  | <b>Mills/Hamilton</b><br><i>Urban Economics</i>  | <b>Waldman/Jensen</b><br><i>Industrial Organization: Theory and Practice</i>                       |
| <b>Ghiara</b><br><i>Learning Economics: A Practical Workbook</i>   | <b>Mishkin</b><br><i>The Economics of Money, Banking, and Financial Markets</i>        |  |
|  | <b>Parkin</b><br><i>Economics</i>  |  |



## PREFACE

At the beginning of the twenty-first century, international trade plays a larger role in the world economy than at any other time in history. We live at a time when many corporations are truly global and consumers have access to a wide variety of goods produced all over the world. Indeed, during the 1990s, trade in manufactures grew four times faster than overall world production. In addition, trade in services has also expanded considerably. Part of this growth is because many developing countries are adopting more market-based, outward-looking development strategies. Many countries in transition from centrally planned economies have chosen to follow similar policies. Another factor is the continued reduction in world trade barriers. New reductions are underway as signatory countries implement Uruguay Round commitments. Overseeing this process is the World Trade Organization (WTO) that began operations in 1995. The WTO administers existing trade agreements, settles trade disputes between member countries, and provides a forum for future trade negotiations. It has quickly become an effective institution in settling trade disputes. As such the WTO has become very controversial, especially with those opposed to the rapid globalization of commercial activity.

Recent years have also seen a number of changes in international financial arrangements. The foreign-exchange market continued to grow at record pace, with trading activity occurring around the clock and trading volume exceeding \$1.5 trillion per day! Perhaps because the market grew so large, countries found it increasingly difficult to influence its behavior. Major bank mergers have eliminated some of the famous names of the past (Chemical Bank) and created mega-banks that are truly global giants. International investment continues to grow and now it is common for individual households to own mutual funds specializing in foreign markets so that a middle-income household may have an internationally-diversified portfolio. National economies are now more closely linked than ever, and developing an understanding of these links is crucial to interpreting domestic and foreign social, political, and economic developments.

As we have stated in previous editions of this book, our goal in writing this text is simple: We hope to provide the student with a guide to the study of international economics that is accessible, comprehensive, relevant, and up to date. Judging by the many favorable reviews we have received from students and professors who have used this book, we feel that we have been generally successful in accomplishing our goal. Our purpose remains unchanged. To that end, we have substantially revised this edition in order to cover all of the material discussed above as well as many other topics, such as the effect of trade on the quality and quantity of U.S. jobs, that have recently been the subject of substantial debate.

### LEVEL OF PRESENTATION

We have sought to write a text that covers current developments in international economics but at the same time is accessible to students who may have had only one or two courses in the principles of economics. To that end, we have minimized mathematics and relegated more difficult extensions to appendixes. The book contains a wide range of helpful learning aids, including a marginal glossary that defines new concepts, boxed items and case studies that present "real-world" counterparts to the ideas being developed in the main text, and a set of exercises at the end of each chapter. Going beyond the text presentation, we have incorporated interesting and timely material from Internet Web sites into exercises that build upon chapter material. At the end of each chapter a WWW icon in the margin will identify a reference to the *International Economics* Web site, where Internet exercises may be found. The exercises allow a dynamic relevancy not possible in standard textbook approaches. In addition to these features, a *Study Guide* is available to accompany the book. This guide offers a variety of problems and questions aimed at helping the student explore and learn the text material.

### COVERAGE AND EMPHASIS

To give the student a better feel for the issues discussed in the text, we have incorporated an extensive amount of data from the real world. For instance, Chapter 1 is devoted almost entirely to describing national economies and the patterns and directions of international trade. Other tables appear throughout the book. To every extent possible, we have sought to provide the most up-to-date statistics currently available.

Chapter 2 is one of the more unusual chapters to be found in a textbook on international economics. Its purpose is to provide a review of basic general equilibrium analysis, and, in particular, to introduce students to the logic and method of economic model building. The chapter begins with a straightforward analysis of the general equilibrium of a closed economy, using simple production possibility frontier diagrams. It then proceeds to the first description of what it means for an economy to engage in international trade. The next two chapters of the text detail the classical and Heckscher-Ohlin models of trade, using production possibility frontiers as the chief analytical tool. New to Chapter 4 is a presentation of the specific factors model.

Chapter 5 is devoted to empirical tests of the classical and HO trade models. It then goes on to deal briefly with new trade theories, including models involving imperfect competition and increasing returns to scale. Chapter 6 introduces a five chapter sequence of material on commercial policy with a discussion of tariffs. Strategic trade policy and protection of the environment as justifications for trade protection are discussed in Chapter 7. Chapter 8 provides considerable detail on U.S. trade policy, including trade policy case studies that deal with environmental issues, the enforcement of U.S. dumping laws, and a recent trade dispute with the European Union (EU) over bananas. Also in this chapter is an extended discussion of the Uruguay Round agreement and the WTO.

Chapter 9 is devoted entirely to the economics of regional trade agreements. The chapter begins with a standard discussion of the costs and benefits of such arrangements. It then turns to consider both NAFTA and the EU. Chapter 10 completes this section of the book with a treatment of trade and growth and international flows of factors of production.

Chapter 11 provides an introduction to international finance and introduces important concepts along with data. Chapter 12 covers the balance of payments and uses the national income accounts to illustrate the links between national saving, investment, and the current account. The description of the foreign exchange market in Chapter 13 goes well beyond the traditional detail found in other texts. A description of the 24-hour nature of the market, including local trading times and trading volumes, is included. Chapters 14 and 15 provide solid grounding in the fundamentals with links between prices and exchange rates and interest rates and exchange rates discussed in the context of current examples and data. The Chapter 16 discussion of international investment has been expanded in this edition to include a detailed analysis of international financial crises. Chapter 17 presents balance of payments theories. Theories of the exchange rate are presented in Chapter 18. Chapter 19 presents a history and current analysis of international monetary standards, including exchange rate target zones and currency boards. International banking and country risk analysis are covered in Chapter 20. The text concludes with Chapter 21 on open-economy macroeconomics. Throughout the text, examples and applications have been updated to current high-interest issues that engage the reader in real-world controversies.

### ALTERNATIVE COURSE EMPHASES

The text is designed to provide sufficient flexibility to be used for a one-term survey of international economics or two separate terms devoted to a more comprehensive study of international trade and international finance. Realizing that individual instructors may have unique preferences regarding material to be presented, we offer the following suggestions:

- For a one-term overview of international economics: Chapters 1–4, 6–8, 11–15, and 19–20
- For a one-term course in international trade theory: Chapters 1–10
- For a one-term course in international finance: Chapters 11–21

An *Instructor's Manual* is available to accompany the text. It includes suggested answers to the end-of-chapter questions.

---

### ACKNOWLEDGMENTS

No textbook can be written without imposing on friends and colleagues for comments, criticism, and ideas. We owe considerable debts to a number of people: Arsene Aka, Jim Cassing, Passcal Gauthier, John K. Hill, Ked Hogan, Douglas Irwin,

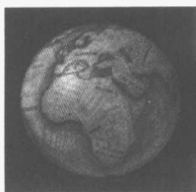


Ali Kutan, Jacquie Pomeroy, and Roy Ruffin. Special mention should go to Marie Connolly, Bettina Peiers, and Eugenio Dante Suarez, who read, edited, and proof-read a considerable portion of the text, and to Lawrence Officer, whose ideas about content and level of presentation were utilized heavily in the first part of the text.

Throughout the course of writing this text, we benefitted from the comments of external readers. Help with this edition was provided by Bassam Harik, Magnus Johansson, Byunglak Lee, Michael A. McPherson, David A. Riker, Daniel Ryan, Bansi L. Sawhey, John A. Shaw, Edward Tower, and Michael Veseth. The preparation of earlier additions was aided by the thoughtful comments of Richard V. Adkisson, Mohsen Bahmani-Oskooee, Lloyd B. Brown, Phillip J. Bryson, James H. Cassing, Steven Skeet Chang, Robert V. Cherneff, Addington Coppin, Satya P. Das, Zane Dennick-Ream, Lewis R. Gale, Panos Hatzipanayotou, Thu-Mai Ho-Kim, Bang Nam Jeon, Susan K. Jones, Yoonbai Kim, Denise Eby Konan, Kishore Kulkarni, William E. Laird, Chyi-Ing Lin, Joseph A. McKinney, Richard Milam, Michael H. Moffett, William E. Morgan, Douglas Nelson, John Neral, Walter G. Park, Susan Pozo, Andreas Savvides, Garry Brooks Stone, Harold R. Williams, Darrel Young, and Allan H. Zeman. We were not always able to incorporate all of their excellent suggestions, but they have added greatly to the final product. The editorial staff at Addison Wesley Longman, including Denise Clinton, Deb Lally, and Victoria Warneck, have made our task as pleasant as possible.

Finally, we owe a debt of gratitude to our families for supporting our efforts and to many former students in international economics classes who helped to shape our ideas regarding the appropriate methods and topics for both our classes and this text.

Steven Husted  
Michael Melvin



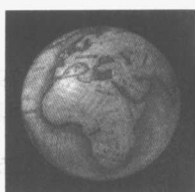
## ABOUT THE AUTHORS

### **Michael Melvin**

Professor of Economics and Dean's Council Distinguished Scholar, Arizona State University. Co-editor, *Journal of International Money and Finance*. Ph.D., UCLA. Past experience includes Visiting Scholar: Federal Reserve Board and International Monetary Fund; and Visiting Professor: Kellogg Graduate School of Management, Northwestern University; Anderson Graduate School of Management, UCLA; Department of Economics, U.C. San Diego, and Pacific Asian Management Institute, University of Hawaii. Professor Melvin's research interests are in international finance, and he has published scholarly articles in *American Economic Review*, *Journal of Finance*, and other major journals.

### **Steven Husted**

Professor of Economics and Associate Dean, Graduate Studies & Research, University of Pittsburgh. Ph.D., Michigan State University. Past experience includes Senior Staff Economist: Council of Economic Advisers; Visiting Scholar: International Monetary Fund; and Visiting Professor: Department of Economics and Research School of the Social Sciences, Australian National University; and Department of Economics, University of Strathclyde. Professor Husted's research interests are in international trade policy and international finance, and he has published scholarly articles in *Journal of Political Economy*, *Review of Economics and Statistics*, and other major journals.



# CONTENTS

<i>Preface</i> .....	xiii
----------------------	------

## **1 AN INTRODUCTION TO INTERNATIONAL TRADE .....1**

Characteristics of National Economies .....	3
Economic Growth .....	8
International Trade .....	9
The Direction of International Trade .....	13
What Goods Do Countries Trade? .....	17
Summary .....	24
Exercises .....	25
Internet Applications .....	25

## **2 TOOLS OF ANALYSIS FOR INTERNATIONAL TRADE MODELS ... .27**

Some Methodological Preliminaries .....	29
The Basic Model: Assumptions .....	30
The Basic Model: Solutions .....	40
ITEM 2.1: RELATIVE PRICES IN SAUDI ARABIA .....	43
Measuring National Welfare .....	44
National Supply and Demand .....	46
ITEM 2.2: MEASUREMENT OF REAL INCOME .....	47
Summary .....	51
Exercises .....	51
Internet Applications .....	52

## **3 THE CLASSICAL MODEL OF INTERNATIONAL TRADE .....53**

Absolute Advantage as a Basis for Trade: Adam Smith's Model .....	54
Comparative Advantage as a Basis for Trade: David Ricardo's Model .....	60
The General Equilibrium Solution of the Classical Model .....	62
The Gains from International Trade .....	67
ITEM 3.1: JAPAN'S GAINS FROM ENTRY INTO WORLD TRADE IN 1858 .....	69
The Relationship between Trade and Wages .....	70
ITEM 3.2: WAGE AND PRODUCTIVITY COMPARISONS FOR THE UNITED STATES AND MEXICO .....	73
An Evaluation of the Classical Model .....	75
Summary .....	76
Exercises .....	76
Internet Applications .....	78

APPENDIX 3.1 The Classical Model with Many Goods . . . . .	79
APPENDIX 3.2 Offer Curves and the Terms of Trade . . . . .	81
<b>4 THE HECKSCHER-OHLIN THEORY . . . . .</b>	<b>85</b>
The HO Model: Basic Assumptions . . . . .	87
ITEM 4.1: CAPITAL/LABOR RATIOS OF SELECTED U.S. INDUSTRIES . . . . .	89
ITEM 4.2: CAPITAL/LABOR RATIOS OF SELECTED COUNTRIES . . . . .	91
The HO Theorem . . . . .	94
Equilibrium in the HO Model . . . . .	96
Some New HO Theorems . . . . .	102
ITEM 4.3: TRADE, WAGES, AND JOBS IN THE U.S. ECONOMY . . . . .	106
Some Final Observations . . . . .	108
Summary . . . . .	109
Exercises . . . . .	110
Internet Applications . . . . .	111
APPENDIX 4.1 Alternate Proofs of Selected HO Theorems . . . . .	112
APPENDIX 4.2 The Specific Factors Model . . . . .	118
<b>5 TESTS OF TRADE MODELS: THE LEONTIEF PARADOX AND ITS AFTERMATH . . . . .</b>	<b>121</b>
Tests of the Classical Model . . . . .	122
Tests of the HO Model . . . . .	124
Attempted Reconciliations of Leontief's Findings . . . . .	126
Other Tests of the HO Model . . . . .	129
Recent Tests of the HO Model . . . . .	130
Alternative Theories of Comparative Advantage . . . . .	133
Human Skills Theory . . . . .	133
Product Life Cycle Theory . . . . .	134
Similarity of Preferences Theory . . . . .	135
Intraindustry Trade . . . . .	136
Increasing Returns and Imperfect Competition . . . . .	139
Conclusions . . . . .	143
Summary . . . . .	144
Exercises . . . . .	145
References . . . . .	146
Internet Applications . . . . .	146
<b>6 TARIFFS . . . . .</b>	<b>147</b>
The Gains from Free Trade . . . . .	148
Tariffs: An Introduction . . . . .	151
Tariffs: An Economic Analysis . . . . .	155
The Gains from Free Trade: One More Time . . . . .	156
The Welfare Cost of Tariffs . . . . .	159

ITEM 6.1: THE WELFARE COSTS OF TARIFFS: SOME RECENT ESTIMATES	
FROM CERTAIN U.S. INDUSTRIES . . . . .	163
Some Complications . . . . .	164
The Optimal Tariff . . . . .	165
ITEM 6.2: THE SMOOT-HAWLEY TARIFF AND ITS AFTERMATH . . . . .	169
How High Are Tariffs? . . . . .	171
Effective Rate of Protection . . . . .	171
Summary . . . . .	177
Exercises . . . . .	177
References . . . . .	179
Internet Applications . . . . .	179
APPENDIX 6.1 The Imperfect Substitutes Model . . . . .	180
<b>7 NONTARIFF BARRIERS AND ARGUMENTS FOR PROTECTION . . .</b>	<b>183</b>
Quotas . . . . .	184
The Welfare Effects of Quotas . . . . .	187
The Equivalence or Nonequivalence of Tariffs and Quotas . . . . .	190
Other Nontariff Barriers . . . . .	192
Export Subsidies . . . . .	192
Government Procurement Policies . . . . .	193
Health and Safety Standards . . . . .	194
Failure to Protect Intellectual Property Rights . . . . .	195
ITEM 7.1: U.S.–CHINESE DISPUTES OVER INTELLECTUAL	
PROPERTY RIGHTS . . . . .	196
How Important Are Nontariff Barriers? . . . . .	197
Arguments for Protection . . . . .	199
Invalid Arguments . . . . .	200
Valid Arguments . . . . .	202
Summary . . . . .	215
Exercises . . . . .	216
References . . . . .	217
Internet Applications . . . . .	217
<b>8 COMMERCIAL POLICY: HISTORY AND PRACTICE . . . . .</b>	<b>219</b>
History of U.S. Commercial Policy . . . . .	220
ITEM 8.1: THE GATT AGREEMENT . . . . .	226
The Uruguay Round and the Creation of the WTO . . . . .	228
TRADE POLICY CASE STUDY 1: U.S. TUNA QUOTAS TO SAVE DOLPHINS . . . . .	231
The Conduct of U.S. Commercial Policy . . . . .	233
Dumping . . . . .	233
Antidumping Law . . . . .	236
TRADE POLICY CASE STUDY 2: COMPUTER DISPLAY SCREENS . . . . .	238
Countervailing Duty Law . . . . .	240

Unfair Foreign Practices: Section 301 .....	241
TRADE POLICY CASE STUDY 3: U.S.–EU BANANAS DISPUTE .....	243
The Escape Clause: Section 201 .....	244
Other Measures .....	245
Comparisons with Policies in Other Countries .....	246
Summary .....	248
Exercises .....	248
References .....	249
Internet Applications .....	249
<b>9 PREFERENTIAL TRADE ARRANGEMENTS .....</b>	<b>251</b>
Preferential Trade Arrangements: Economic Analysis .....	253
North American Free Trade Agreement .....	257
ITEM 9.1: DETAILS OF THE NAFTA .....	259
NAFTA and the U.S. Economy: Six Years Later .....	261
European Union .....	264
The EU Government .....	265
The Europe 1992 Initiative .....	266
Regionalism versus Multilateralism .....	267
ITEM 9.2: OTHER PREFERENTIAL TRADE ARRANGEMENTS .....	268
Summary .....	271
Exercises .....	271
References .....	272
Internet Applications .....	272
<b>10 INTERNATIONAL TRADE AND ECONOMIC GROWTH .....</b>	<b>273</b>
Trade and Development .....	274
Primary-Export-Led Development Policies .....	275
Import-Substitution Development Policies .....	278
Outward-Looking Development Policies .....	279
ITEM 10.1: OUTWARD-LOOKING VERSUS IMPORT-SUBSTITUTION GROWTH POLICIES .....	281
Trade and Growth .....	281
Trade and Growth: Some Additional Comments .....	289
Technological Change .....	290
Growth, Prices, and Welfare .....	290
ITEM 10.2: THE DUTCH DISEASE .....	292
International Flows of Factors .....	293
Labor .....	293
Capital .....	296
Economic Analysis .....	299
Summary .....	302
Exercises .....	303

References .....	304
Internet Applications .....	304
<b>11 AN INTRODUCTION TO INTERNATIONAL FINANCE .....</b>	<b>305</b>
The Balance of Payments .....	306
Exchange Rates .....	306
Prices and Exchange Rates .....	309
Interest Rates and Exchange Rates .....	310
Additional Major Topics .....	312
Summary .....	314
Exercises .....	314
Internet Applications .....	315
<b>12 THE BALANCE OF PAYMENTS .....</b>	<b>317</b>
Current Account .....	318
Financing the Current Account: The Capital Account .....	321
National Saving, Investment, and the Current Account .....	324
ITEM 12.1: THE WORLD'S LARGEST DEBTOR .....	325
Additional Summary Measures .....	326
Transactions Classification .....	328
Balance-of-Payments Equilibrium and Adjustment .....	330
Summary .....	333
Exercises .....	333
References .....	335
Internet Applications .....	335
<b>13 THE FOREIGN-EXCHANGE MARKET .....</b>	<b>337</b>
Spot Rates .....	338
ITEM 13.1: BID-ASK SPREADS AND POLITICS: THE SOUTH	
AFRICAN RAND .....	341
Arbitrage .....	343
Forward Rates .....	346
Swaps .....	348
The Futures Market .....	350
Foreign-Currency Options .....	353
Central-Bank Intervention .....	355
Black Markets and Parallel Markets .....	356
ITEM 13.2: DOLLARS FOR DINARS .....	358
Summary .....	359
Exercises .....	359
References .....	360
Internet Applications .....	360
APPENDIX 13.1 Exchange Rate Indexes .....	361

<b>14</b>	<b>PRICES AND EXCHANGE RATES: PURCHASING POWER PARITY</b>	<b>363</b>
	Absolute Purchasing Power Parity	364
	ITEM 14.1: THE U.S. CONSUMER PRICE INDEX	365
	Relative Purchasing Power Parity	367
	Time, Inflation, and PPP	368
	ITEM 14.2: HYPERINFLATION IN BOLIVIA	369
	Deviations from PPP	370
	"Overvalued" and "Undervalued" Currencies	375
	Summary	378
	Exercises	378
	References	379
	Internet Applications	380
<b>15</b>	<b>EXCHANGE RATES, INTEREST RATES, AND INTEREST PARITY</b>	<b>381</b>
	Interest Parity	382
	Interest Rates and Inflation	386
	ITEM 15.1: LENDERS AND BORROWERS, LOSERS AND WINNERS	387
	Exchange Rates, Interest Rates, and Inflation	388
	Expected Exchange Rates and the Term Structure of Interest Rates	389
	Summary	392
	Exercises	393
	References	393
	Internet Applications	394
	APPENDIX 15.1 Taxation and Interest Rate Parity	395
<b>16</b>	<b>FOREIGN-EXCHANGE RISK, FORECASTING, AND INTERNATIONAL INVESTMENT</b>	<b>397</b>
	Types of Foreign-Exchange Risk	398
	Foreign Exchange Risk Premium	401
	Market Efficiency	404
	Foreign-Exchange Forecasting	405
	International Investment and Portfolio Diversification	407
	Direct Foreign Investment	411
	Capital Inflow Issues	415
	International Lending and Crisis	417
	Summary	419
	Exercises	420
	References	421
	Internet Applications	421
<b>17</b>	<b>BASIC THEORIES OF THE BALANCE OF PAYMENTS</b>	<b>423</b>
	The Elasticities Approach to the Balance of Trade	424



Elasticities and J Curves .....	427
The Currency-Contract Period .....	428
The Pass-Through Period .....	430
The Evidence from Devaluations .....	433
The Absorption Approach to the Balance of Trade .....	433
ITEM 17.1: THE PASS-THROUGH EFFECT AND PROFITS .....	434
The Monetary Approach to the Balance of Payments .....	436
Summary .....	442
Exercises .....	443
References .....	444
Internet Applications .....	444
APPENDIX 17.1 Stable Foreign-Exchange Markets and the Marshall-Lerner Condition .....	445
<b>18 EXCHANGE RATE THEORIES .....</b>	<b>451</b>
The Asset Approach .....	452
Sterilization .....	455
Exchange Rates and the Trade Balance .....	458
Overshooting Exchange Rates .....	460
Currency Substitution .....	463
The Role of News .....	465
Foreign Exchange Market Microstructure .....	466
Summary .....	468
Exercises .....	469
References .....	470
Internet Applications .....	470
<b>19 ALTERNATIVE INTERNATIONAL MONETARY STANDARDS .....</b>	<b>471</b>
The Gold Standard: 1880–1914 .....	472
The Interwar Period: 1918–1939 .....	475
The Gold Exchange Standard: 1944–1970 .....	476
ITEM 19.1: THE INTERNATIONAL MONETARY FUND .....	477
The Transition Years: 1971–1973 .....	479
Floating Exchange Rates: Since 1973 .....	479
The Choice of an Exchange-Rate System .....	482
Optimum Currency Areas .....	485
The European Monetary System and the Euro .....	487
Target Zones .....	488
Currency Boards .....	490
ITEM 19.2: SPECULATIVE ATTACKS AND THE MEXICAN AND ASIAN FINANCIAL CRISES .....	491
International Reserve Currencies .....	492
Composite Reserve Currencies .....	495
Multiple Exchange Rates .....	496