

# INTERNATIONAL ECONOMICS

SEVENTH EDITION

DOMINICK SALVATORE



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# INTERNATIONAL ECONOMICS

Seventh Edition

**Dominick Salvatore**

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# Preface

This is the seventh edition of a text that has enjoyed a flattering market success, having been adopted by more than 500 colleges and universities throughout the United States, Canada, and other English speaking countries. All of the features that have made the previous editions of this text one of the leading texts of International Economics in the United States and around the world have been retained in the seventh edition. However, the content has been thoroughly updated and expanded to include many new significant topics and important recent developments.

## Significant International Developments

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The main objective of the seventh edition of this text is to present a comprehensive, up-to-date, and clear exposition of the theory and principles of international economics that are essential for understanding, evaluating, and suggesting solutions to the important international economic problems and issues facing the United States and the world at the beginning of this new century. These are:

1. Despite the successful completion of the Uruguay Round in December 1993, trade protectionism remains high and the world is breaking up into several major trading blocks.
2. The globalization of capital markets has led to volatile and misaligned exchange rates, unstable financial conditions, and it has further eroded governments' control over domestic monetary matters.
3. The frequent financial and economic crises that affect developing and transition economies (emerging markets) threaten the stability of the entire international monetary system.
4. The high structural unemployment in Europe has dampened the growth of world trade and has led to more trade disputes.
5. Rapid technological change, globalization, and increased international competition are causing widespread downsizing and job insecurity in the United States (despite very low unemployment rates).
6. The restructuring of the transition economies of Central/Eastern Europe and the former Soviet Republics is not proceeding as evenly and as rapidly as expected, and this presents major challenges for the entire world.
7. The deep poverty in many developing countries and the widening international inequalities pose serious moral, political, and developmental problems in the world today.

These events significantly affect United States well-being but are, to a large extent, beyond its control.

## New to the Seventh Edition

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Chapter 1 (Section 1.5) has been thoroughly revised to identify the major international economic (trade and financial) problems facing the United States and the world today, and so has the discussion in Chapter 21 (Section 21.6) which examines of how they can be resolved.

The creation of the euro has been one crucial development since the previous edition. This topic is treated extensively in several new sections and case studies throughout the text to examine its effect on international trade and international finance in Europe, the United States, and in other countries of the world.

Another very important development since the previous edition has been the financial and economic crisis in Mexico, in the dynamic East Asian economies, in Russia, and in Brazil, which has exposed the fragility of the international monetary system and led to increased calls for reforms. This topic is fully explored in various new sections and case studies throughout the trade and finance parts of the text.

Case Studies have been increased to 108, of which more than one-third are new and the others have been thoroughly revised.

A new INTERNET section has been added which gives the most important Internet site addresses or links to data sources, information, and analyses for the topics presented in each chapter to show the student how to access and use the wealth of information available on the Internet.

There is a WEBSITE for the Text, which presents for each chapter additional examples, cases, and theoretical points and questions and problems that can be answered or solved using the Internet. The Website is continuously updated to reflect important new developments in the international economy as they unfold.

New sections and cases in trade theory and policy include: international trade and de-industrialization in the United States, the European Union, and Japan; specific-factor model; the new international economies of scale; the pervasiveness of nontariff trade barriers; and the exploding U.S. trade deficit with China.

New sections and cases in international finance include: Birth of a new currency; the euro; Has the U.S. economy become recession-proof?; The euro and the dollar; Financial and economic crisis in emerging market economies; and Operation and reforms of the international monetary system.

More international trade and finance data are included throughout the text.

## Audience and Level

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The text presents all of the principles and theories essential for a thorough understanding of international economics. It does so on an intuitive level in the text itself, and more rigorously in the appendices at the end of most chapters. In addition, partial equilibrium analysis is presented before the more difficult general equilibrium analysis (which is optional). Thus, the book is designed for flexibility. It also over-

comes the shortcomings of other international economics texts in which the level of analysis is either too complicated or too simplistic.

## Organization of the Book

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The book is organized into four parts. Part One (Chapters 2–7) deals with trade theory (i.e., the basis and the gains from trade). Part Two (Chapters 8–12) deals with trade policy (i.e., obstructions to the flow of trade). Part Three (Chapter 13–15) deals with the measurement of a nation's balance of payments, foreign exchange markets, and exchange rate determination. Part Four (Chapters 16–21) examines open-economy macroeconomics or the macro relationships between the domestic economy and the rest of the world, as well as the operation of the present international monetary system.

In the typical one-semester undergraduate course in international economics, instructors may wish to cover the 10 core chapters (2–3, 5, 9, 13–17, 21) as well as the few other asterisked sections in other chapters, and exclude the appendices. Undergraduate courses in international trade could cover Chapters 1 to 12 and 21, while in undergraduate courses in international finance could cover Chapters 1, and 13–21. The many examples and real world case studies presented also makes the text very suitable for international economics courses in business programs. In first-year graduate courses in international economics and business, instructors may want to cover the appendices also and assign readings from the extensive annotated bibliography at the end of each chapter.

## For the Student

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- *The same example is utilized in all the chapters dealing with the same basic concept.* This feature is unique to this text. For example, the same graphical and numerical model is used in every chapter, from Chapters 2 through 10 (the chapters that deal with trade theory and policy). This greatly reduces the real burden on the student, who does not have to start afresh with a new example each time.
- *Actual numbers are used in the examples and the graphs are presented on scales.* This makes the various concepts and theories presented more concrete, accessible, and pertinent to the student, and the graphs easier to read and understand.
- *There are 108 case studies (from three to nine per chapter).* These real-world case studies are generally short and to the point and serve to reinforce understanding and highlight the most important topics presented in the chapter.
- *The sections of each chapter are numbered for easy reference.* Longer sections are broken into two or more numbered subsections. All of the graphs and diagrams are carefully explained in the text and then summarized briefly in the captions.
- *The judicious use of color and shading enhances the readability of the text and aids the student's understanding.*

- *Each chapter ends with the following teaching aids:*

**Summary**—A paragraph reviews each section of the text.

**A Look Ahead**—Describes what follows in the subsequent chapter.

**Key Terms**—Lists the important terms introduced in bold-face type in the chapter. A glossary of all these terms in is then provided at the end of the book.

**Questions for Review**—fourteen questions (two or more for each for each section in the chapter).

**Problems**—Fourteen to fifteen problems are provided for each chapter. These ask the student to calculate a specific measure or explain a particular event. Brief answers to selected problems (those marked by an asterisk) are provided at the end of the book for feedback.

**Appendices**—These develop in a more rigorous, but careful and clear fashion, material that is presented on an intuitive level in the chapter.

**Selected Bibliography**—The most important references are included along with specific notes indicating the topic they deal with. A separate authors index is included at the end of the book.

**INTERNet**—There is a section at the end of each chapter that provides Internet site addresses or links to data sources, information, and analyses on the topics presented in each chapter to show the student how to access and use the wealth of information available on the Internet.

- *Accompanying the text, there are also:*

**A Website**—This presents for each chapter additional examples, cases, and theoretical points and questions as well as problems that can be answered or solved using the Internet. The Website is continuously updated to reflect important new developments in the international economy as they unfold.

- **A Study Guide** prepared by Professor Arthur Raymond of Muhlenberg College is available for students. This provides extensive review of key concepts, numerous additional illustrative examples, and practice problems and exercise sets.
- **A Schaum Outline** on the *Theory and Problems of International Economics* (4<sup>th</sup> edition, 1996), prepared by the author, can be purchased in most bookstores. This provides a problem-solving approach to the topics presented in the traditional way in this and other international economics texts.

## For the Instructor

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- An **Instructor's Manual** prepared by the author is available which includes chapter objectives and lecture suggestions, answers to the end-of-chapter problems, a set of 15 to 20 multiple-choice questions, with answers, and additional problems and essays for each chapter.
- Transparency masters for all the figures and tables in the text are available in the *Instructor's Manual*.

## Acknowledgments

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