

# **Applied International Economics**

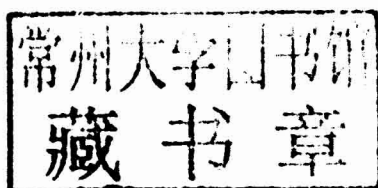
Fourth Edition

**W. Charles Sawyer and  
Richard L. Sprinkle**

# Applied International Economics

4th Edition

**W. Charles Sawyer and  
Richard L. Sprinkle**



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# Applied International Economics

## 4th Edition

*Applied International Economics*, 4th edition, offers a modern and accessible treatment of international economics, shifting the emphasis from pure theory to the application of theory by using some of the key tools of economic analysis. This new edition of the text formerly known as *International Economics* makes the real-life application of international economics clearer than ever before, and focuses on the basics that students will need in order to analyze information on the world economy throughout their future careers.

The new edition has been refocused, revised, and thoroughly updated. Key features include:

- A new chapter on the firm in international trade accompanying a greater focus on firms in the world economy, how trade influences income inequality, and how businesses can apply principles of international economics.
- New or expanded chapter subsections on topics including the intersection of international economics and international business; money, interest rates, and the exchange rate; and the dynamic gains from trade.
- Replacement and expansion of case studies to bring them fully up to date.
- Chapters on economic development in both the international trade and finance sections on the book to reflect the increasing importance of low- and middle-income countries in the world economy.
- A streamlined treatment of purchasing power parity, leading into the concept of the real exchange rate.
- Expanded treatment of the eurozone and the eurozone crisis.

Written in a thorough and engaging style, the book covers topics at a level appropriate for students specializing in business or international relations, as well as for economics students. Along with a wealth of case studies and real-life examples, the book offers extensive pedagogy including a companion website, end of chapter summaries, explanations of key concepts and terms, problem sets, and additional readings.

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# Preface

It is difficult to get through a day without the world economy touching our lives in some way. Every day, 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 on 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 taken only by economics majors who had completed courses in intermediate microeconomic and macroeconomic theory. As international economics has become a more important subject in business, government, and our daily lives, the enrolment 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 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 *Applied 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 *Applied 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 *Applied 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. These terms are in bold in the text and defined in a separate glossary.
- 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.

### Features: Content that makes a difference

Beyond the book's basic approach and pedagogy, *Applied 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 *Applied 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 US exports are over \$1.5 trillion is a useful thing to know. If you also learn that the size of the US economy is \$17 trillion and the size of the world economy is \$73 trillion, then the information on US exports has more meaning. Students learn not only how large exports are, but how they fit into the economy overall.
- Intra-industry trade – Intra-industry 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, intra-industry trade is covered in a separate chapter (Chapter 5).