

EIGHTH EDITION

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International Economics

A Policy Approach

Euro Update

Mordechai E. Kreinin

E i g h t h E d i t i o n

INTERNATIONAL ECONOMICS

A Policy Approach

Euro Update

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To my daughters

Tamara

Elana

Miriam

- Relevant bibliographical material is contained in footnotes rather than end-of-chapter notes. This arrangement relates additional readings to specific subsections and makes them useful for instructors who wish to assign term papers.
- Most of the references are selected at a level accessible to undergraduate students. Instructors wishing to assign book reviews will find sources of books dealing with policy matters in the bibliography at the end of this book.
- Sources of widely used statistical information and reviews of current developments are also offered at the end of the book, along with a list of readers for supplementary reading.

New to this Edition

- The Euro update incorporates up-to-date material in an appendix at the end of the book.
 - Chapter 16 is now presented with a detailed discussion of the Euro, the hurdles European countries had to cross, and the international implications of the common currency.
 - Chapter 17 is updated with new material covering the causes and effects of the “Global Financial Crisis of 1997-99.”
- Tables, graphs, data, and in-text examples throughout the textbook have been updated to reflect current developments in international trade and finance.
- Chapter 2 now includes a brief discussion of Adam Smith’s explanation of trade based on absolute advantage and a simplified version of the “Additional Insights” box on complete specialization.
- In chapter 3, the discussion of the factor proportions model has been simplified and a brief discussion of wage disparity has been added to the coverage of human skills.
- A new Additional Insights box in chapter 4 addresses the case for protection for a single factor of production. Coverage of customs unions includes a 1996 study by the World Bank indicating the danger of trade-diverting in their effects.
- In chapter 6, coverage of older treaties has been reduced to accommodate extended coverage of regional and bilateral relations including economic reforms in eastern Europe and other countries undergoing trade liberalization.
- Chapter 12 expands its coverage on currency boards in light of their growing international importance.
- At the request of reviewers, the discussion of fiscal and monetary policies under alternative exchange-rate regimes in chapter 14 has been converted to an Additional Insights box for greater instructor flexibility.

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Last, but not least, I wish to thank Lisa Harmon for her masterful typing of the extensive revisions of this edition.

Mordechai E. Kreinin

PREFACE



Although Americans have gained a better understanding of their domestic economy since World War II, knowledge of international economics has remained limited. In recent years, however, international economic matters so frequently occupied the financial headlines that attention has been forced beyond domestic concerns to those of the world market.

Through its eight editions, this book has provided a simplified yet comprehensive analysis of international economic relations, with the fundamental objective of extracting maximum policy insight from a minimum number of theoretical constructs. Written for students with only one or two previous courses in the principles of economics, it is designed primarily as a basic text for a one- or two-term undergraduate sequence in international economics. Although the volume contains analytical tools, the material is arranged so that the theoretical sections may be omitted and the main text used also in policy-oriented noneconomics courses. Finally, the book is useful as supplementary reading for students of international relations and business administration, as well as for economics students in money and banking courses.

The method of presentation has remained unchanged through all editions. Each subject is expounded verbally before any use is made of analytical tools beyond simple supply and demand curves. Whenever technical terms and tools are needed, they are carefully explained. Although the focus is on policy, the necessary theoretical underpinnings are fully presented.

THE EIGHTH EDITION

Part One of the book addresses international trade and commercial policy, while Part Two is devoted to international financial relations. As in previous editions, the two parts are *interchangeable and may be studied in either order*. Each chapter concludes with a chapter *Summary*, a list of *Important Concepts*, and review questions. The appendices, which contain *more complex formulas and theoretical material*, appear at the end of each relevant chapter.

- All topics have been thoroughly updated, and many examples come from the mid-1990s.
- The original arrangement that enabled uninitiated readers to skip over the technical sections without loss of continuity has been retained. These technical sections are now featured as *Additional Insights* boxes and are clearly set apart from the text, allowing instructors to cover important concepts in more detail. However, they may also be skipped without any loss of continuity.

New topics include:

- The uproar over U.S. efforts to sanction foreign companies with investments in Cuba, Libya, and Iran. p. 231
- Recent tensions between the U.S. and China over intellectual property rights. p. 201
- The Mexican currency crisis of December 1994. p. 472
- The European Union's efforts to reduce its budgetary deficits as a preliminary to adopting the Euro as a single currency and moving to fixed exchange rates by 1999. p. 442
- Japan's challenge of Brazil's content requirement on cars before the World Trade Organization. p. 148
- Recent efforts to establish requirements for a minimum level of European-produced programming on European television. p. 148

Instructor's Manual and Test Bank

This edition of *International Economics* is accompanied by an Instructor's Manual with a test bank. This manual, written by Don Clark of the University of Tennessee-Knoxville, should prove a useful supplement as it summarizes and highlights the key features of the text. The following items are provided for each of the seventeen chapters:

- A brief overview or summary
- An outline of the distinguishing features
- References for outside reading
- Answers to the end-of-chapter questions
- Multiple-choice questions (10–15)

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