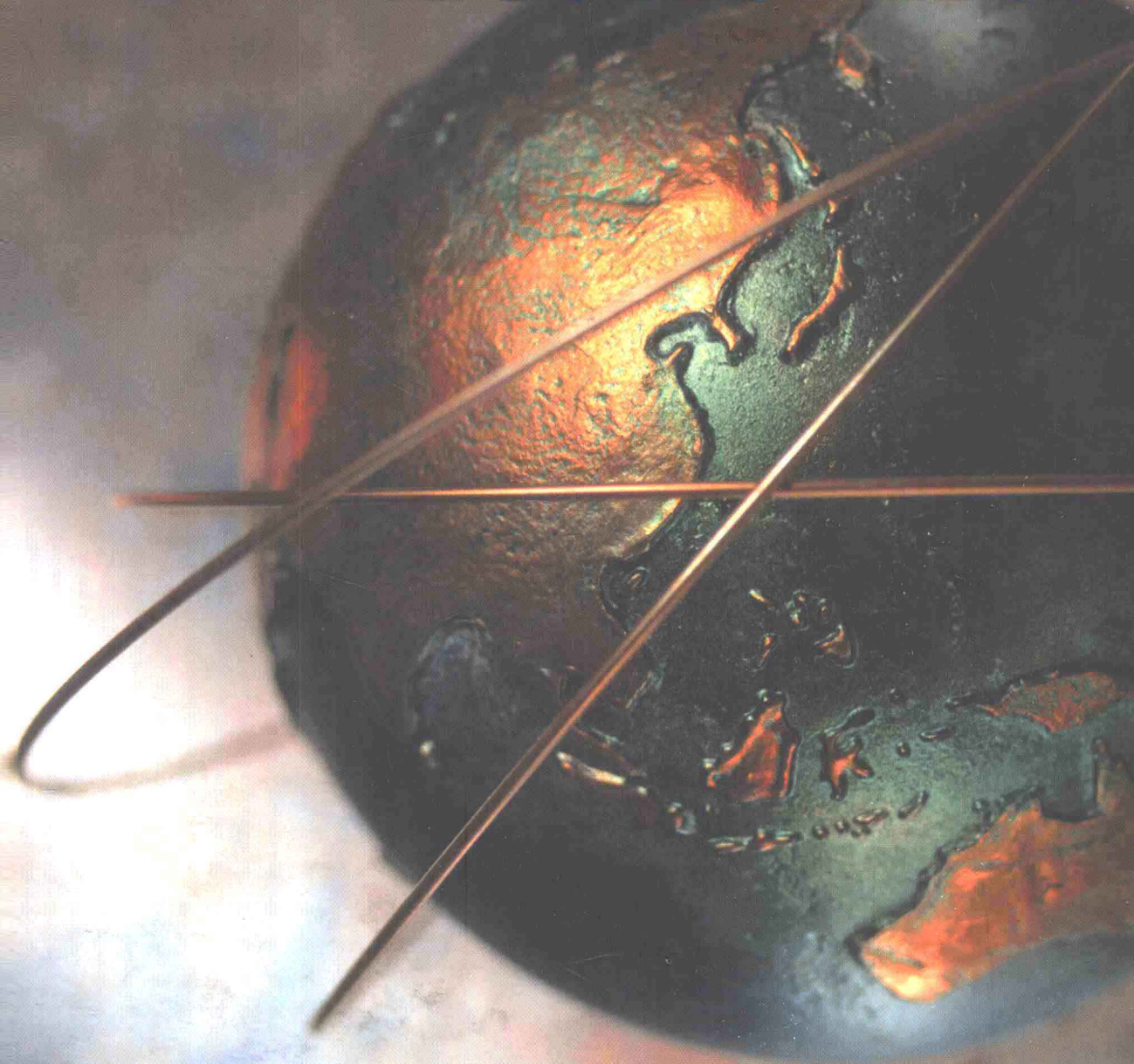


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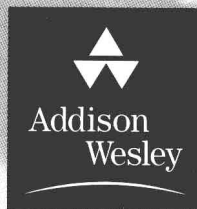


James Gerber

International SECOND EDITION Economics

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San Diego State University



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For Monica and Elizabeth, in the hope that their 21st-century world will find peace and prosperity.

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Preface

International Economics is designed for a one-semester course covering both the micro and macro components of international economics. The Second Edition continues the approach of the First Edition in offering a principles-level introduction to the core theories, together with policy analysis and the institutional and historical contexts of our world's increasing international economic integration. The goal is to make economic reasoning about the international economy accessible to a diverse group of students, including both economics majors and nonmajors.

Several features of *International Economics* distinguish it from the many excellent texts in the field. First, the focus is wider than the theoretical apparatus used by economists. Economic theory is covered and its mastery is essential, but it is my belief that the average reader grasps theory more completely when it is given specific content. To this end, I have supplemented the economic theory with case studies and other content ranging across the role of economic institutions, the analysis of international economic policies, and the recent history of the world economy. Second, the objective of covering both the micro and macro sides in a one-semester course necessitates a paring back of the theory to focus on the central concepts. As all instructors are aware, many of the theoretical topics found in texts are of secondary or tertiary importance. This often poses a problem for students because they lack the needed breadth and depth of understanding to rank topics by their relative importance. Third, *International Economics* provides richer historical and institutional detail than most other texts. This material illuminates the relationships between economic theory and policy, and between economics and the other social sciences. Fourth, I have organized the final section of the text around five area studies chapters, covering North America, the European Union, Latin America, East Asia, and the transition economies. These chapters offer students the chance to broaden their understanding of world trends and to observe the intellectual power of economic theory in practice.

New to the Second Edition

The revisions in this Second Edition fall into four broad areas.

1. Trade and finance topics reorganized into two distinct parts: In the Second Edition, Part 2 of the text features international trade and commercial policy, and Part 3 covers the balance of payments, exchange rates, and other core areas of international macroeconomics.

2. Three brand-new chapters: Expanded coverage of finance topics is highlighted by an all-new Chapter 11 on open-economy macroeconomics and an all-new Chapter 12 on current international financial crises. A new Chapter 8 probes into the effects of international trade on labor and the environment.

3. Increased emphasis on the Internet: For every chapter, the text's Companion Web Site offers a set of Web links, along with detailed descriptions of the material they contain, presenting possibilities for student papers and research projects. Many of the think tanks and international organizations listed in the Web resources have a constant flow of accessible, student-friendly working papers and policy briefs that can add depth to the topics discussed in *International Economics*.

4. Thoroughly updated case studies: I have added many new case studies to the Second Edition, covering such controversial topics as the NAFTA region as an optimal currency area (Chapter 10), the Mexican peso crisis (Chapter 12), the Free Trade Area of the Americas (Chapter 13), and the euro (Chapter 14).

Content Updates

I am gratified by the positive reception accorded the First Edition of *International Economics*, and have fine-tuned the Second Edition as follows:

- *Chapters 1 and 2* provide more information on the major actors in the international economy. Chapter 1 includes a new discussion of the evidence linking trade to economic growth, and Chapter 2 introduces regional trade agreements.
- *Chapter 5* expands the discussion of economies of scale and trade, previously in Chapter 4 in the First Edition. Additionally, it condenses the material on industrial policies that was in Chapter 7 of the First Edition, and develops the link between external economies and industrial policies.
- *Chapter 8* is an entirely new chapter on labor and environmental standards. The chapter begins with a discussion of the costs and benefits of harmonizing standards and the alternatives to harmonization. It then examines labor and environmental standards and links them to the discussion of commercial policy in Chapters 6 and 7.
- *Chapter 9's* coverage of the balance of payments incorporates the recent changes undertaken by the United States to make its international accounting methodology consistent with IMF recommendations.
- *Chapter 11* is an entirely new chapter on open-economy macroeconomics. The presentation integrates principles-level macroeconomics with exchange rates and current accounts.
- *Chapter 12*, also a new chapter, covers the important topic of international financial crisis. Two basic types of crises are described, and policies for crisis avoidance and crisis response are discussed. The chapter ends with an overview of the recent discussion of reforms in the international financial architecture.
- *Chapter 14* on the European Union includes an updated discussion of governance issues, EU expansion, and the euro, including the causes of its surprising weakness after its introduction in 1999.

Flexibility of Organization

A book requires a fixed topical sequence because it must order the chapters one after another. This is a potential problem for some instructors, as there is a wide variety of preferences for the order in which topics are taught. The Second Edition strives for flexibility in allowing instructors to find their own preferred sequence.

The two introductory chapters that make up Part 1 are designed to build student vocabulary, develop historical perspective, and provide background information about the different international organizations and the roles that they play in the world economy. Some instructors prefer to delve into the theory chapters immediately, and reserve this material for later in the course. There is no loss of continuity with this approach.

Part 2 presents the micro side of international economics, while Part 3 covers the macro. These two parts can easily be reversed in sequence if desired. Part 2's six chapters cover trade models (Chapters 3–5) and commercial policy (Chapters 6–8). A condensed treatment of this section could focus on the Ricardian model in Chapter 3, and the analysis of tariffs and quotas in Chapters 6 and 7. Chapter 8 on labor and environmental standards can stand on its own, although the preceding chapters deepen student understanding of the trade-offs.

Part 3 covers the balance of payments, exchange rates, open-economy macroeconomics, and international financial crises. Chapter 11 in Part 3, on open economy macroeconomics, is optional. It is intended for students and instructors who want a review of macroeconomics, including the concepts of fiscal and monetary policy, in a context that includes current accounts and exchange rates. If Chapter 11 is omitted, Chapter 12 remains accessible as long as students have an understanding of fiscal and monetary policy. Chapter 12 relies most heavily on Chapters 9 (balance of payments) and 10 (exchange rates and exchange rate systems).

Part 4 has five area studies chapters. These chapters use the theory in Chapters 3–12 in a way that is similar to the economics discussion that students find in the business press, congressional testimonies, speeches, and other sources intended for a broad civic audience. Where necessary, concepts such as the real rate of exchange are briefly reviewed. One or more of these chapters can be moved forward to fit the needs of a particular course.

Supplementary Materials

The following supplementary resources are available to support teaching and learning.

Companion Web Site: www.aw.com/gerber

- Kati Suominen of the University of California, San Diego, has prepared a Web-based PowerPoint presentation comprising lecture notes and most of the text's tables and figures to accompany the Second Edition. An art-only

presentation is also available for instructors who wish to create their own PowerPoint presentation.

- In recognition of the importance of the Internet as a source of timely information, the Web site offers 5–7 Web links, also prepared by Kati Suominen of the University of California, San Diego, for each chapter of *International Economics*. These links, complete with descriptions of the content available at each site, provide easy access to relevant data sources.

In addition to the Companion Web site, the Web content is available in CourseCompass™ and Blackboard versions. CourseCompass™ is a nationally hosted, dynamic, interactive online course management system powered by Blackboard, leaders in the development of Internet-based learning tools. This easy-to-use and customizable program enables professors to tailor content and functionality to meet individual course needs. To see a demo, visit www.coursecompass.com. Please contact your local sales representative for more information on obtaining Web content in these various formats.

Instructor's Manual

Seid Hassan of Murray State University has revised the Instructor's Manual to bring it up to date with the text. Each chapter in the manual begins with an outline of the text chapter and a brief discussion of the chapter goals. The Instructor's Manual also has answers to the end-of-chapter questions and at least twenty multiple-choice questions for each chapter.

Acknowledgments

More than anyone, my wife Joan contributed to this book, both through her emotional support and the wonderful family life she created around me. I apologize for all the days and nights I neglected her and our daughters while working on this project.

Textbooks cannot be written by a single person. Without the feedback of students, colleagues, practitioners, and the publishing team at Addison-Wesley, this text would never have seen the light of day. I hope that this book can at least partly repay what I owe to them.

For all their efforts and professionalism, I am deeply grateful to Denise Clinton, Editor-in-Chief at Addison-Wesley; Christine Houde, the project manager for the Second Edition; Sylvia Mallory, Executive Development Manager; and Juliet Silveri, Production Supervisor. I would also like to thank Kathy Smith for copyediting the manuscript, and Chris Lukinbeal, whose maps have greatly enhanced *International Economics*.

Finally, my gratitude goes to the numerous reviewers who have played an essential role in the development of *International Economics*. Each of the following individuals reviewed the manuscript, many of them several times, and provided useful commentary. I cannot express how much the text has benefited from their feedback.

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