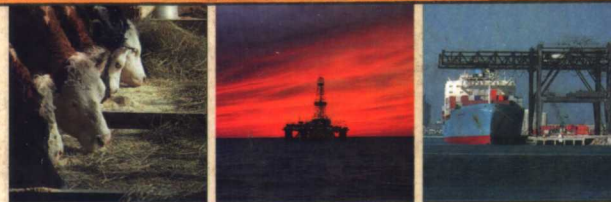


PETER H. LINDERT

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# INTERNATIONAL ECONOMICS



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***INTERNATIONAL ECONOMICS***

***Peter H. Lindert***

University of California at Davis

***IRWIN***

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## ***Preface***

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Keeping a textbook abreast of new events and changes in theory is a welcome challenge for any scholar dedicated to learning and to teaching. The challenge has been posed anew since 1986, more by changing events than by changing theories. The economic revolutions of 1989–90 have shaped much of the fresh material of this edition, with an important supporting role being played by new theories of modern trade, exchange-rate theory, and the theory of international debt problems. While there are thousands of micro-revisions that defy summary, a few themes stand out.

- The trade-bloc revolution of the late 1980s and early 1990s now has its own chapter. Chapter 9 combines the breakup of the Eastern bloc with the European Community's march to 1992, the North American Free Trade Treaty, and the economics of blockades and embargoes. Far from being just a repository for recent newsclippings, Chapter 9 uses frugal economic theory to interpret the prospects for both trade blocs and trade blocks.
- The struggle for economic leadership among leading industrial nations is the dominant theme of the new Chapters 5 and 10. Chapter 5, on *Alternative Theories of Modern Trade*, finds a unity in the diverse economies-of-scale theories. All take aim at Part I's over-arching issues of what explains our trade patterns and who gains or loses from them. All focus on modern trade in knowledge-intensive products, with a high share of "intra-industry" trade. Their appeal and their limitations are weighed without undue complexity. Chapter 10 shows the potential and the limitations of strategic trade policy, with application to the race to capture high-definition television markets in the mid-1990s. Chapter 10's harvest is far richer than just a presentation of strategic trade policy, however. It offers the lessons recently learned about the international competitive races for leadership in steel, autos, and electronics. The lessons about the role of government policy and the role of private industrial performance differ among these key sectors.
- Sometimes events vindicate an old decision instead of calling for a new one. The sixth through eighth editions have given OPEC and the economics



of international cartels their own chapter, even when the oil price decline of 1985–86 made them less topical. I have long felt that this material was crucial to international economics, and that American policy is a key force holding up the cost of energy. Iraq's invasion of Kuwait in 1990 makes the material in Chapter 11 all the more compelling.

- The three lead chapters of Part III have been overhauled and rearranged, both to simplify their logical flow and to bring order to the turbulence of payments flows and exchange rates in recent years. Chapter 14, Payments among Nations, now stands at the gateway to the unbroken path of chapters (15–18) on the economics of exchange rates. The reader can take in this clear view of the basic flows between nations before heading in any traditional direction, whether into the foreign exchange market in Part III, or into the macroeconomics of Part IV, or even into the trade side in Parts I and II. The introduction to exchange-rate economics has some fresh updates and a candor that I hope will be welcome. Candor is essential in reporting the track record of our models for explaining exchange-rate movements. A key innovation here is Chapter 16's map of how model errors rise and fall with the time-span of the forecast. Our strength and our weakness appear side by side: our insights have greatest power in the long run and in hyperinflations, yet fail to illuminate short-run movements (except for the relationship of spot and forward rates to each other and to interest rates).
- A new compromise has been struck in Part IV regarding the diagrams of the IS-LM-FE analysis built on the ISLM of intermediate macroeconomics. Teaching opinions differ sharply on this diagrammatic tool. Some like it not, some like it bold. The sixth edition appeased the faction wanting the diagrams, while the seventh and eighth dispensed with them. They now reappear in Chapter 20 in the limited role they play best: policy analysis under fixed exchange rates. The text flows in such a way, however, that the IS-LM-FE diagrams are discussed in discrete sets of paragraphs that instructors can place in quarantine if they wish.
- Fresh material also dominates Chapter 24 on international capital flows and the debt crisis. The continuing debt crisis of developing countries needs a careful survey and interpretation, of course, as does America's switch from top creditor to top debtor. The theoretical slant on the debt crisis is my own.

Clarity and honesty are the stylistic goals throughout. Even more than in earlier editions, abundant road signs show where the argument is going. The signs are unmistakable at the start of each chapter, often helped by a schematic sketch. Almost every paragraph also leads off with its keynote sentence pointing the way. Summaries recap every chapter. As in the first five editions by Charles Kindleberger, I try to be candid about which tools and which facts are more important than which others. The undeniable

power of some of the economist's tools is applied repeatedly to recent events, without apology. Tools that fail to improve on common sense and intuition are not over-sold. Truth in packaging also holds for empirical trends and patterns. Some facts are weightier than others, and I have tried to order them carefully. As a result, the book has more empirical material than most competing texts, yet avoids presenting masses of facts as if they could speak for themselves. Data sources are cited: a textbook has no excuse for hiding the untidy facts behind the shiny displays. The sceptical reader who wants to track down the messier and deeper truth must be rewarded, even if twenty others don't want to know where the Received Truth came from.

The format of the book has been fine-tuned for better teaching. Most (though still not all) exam-worthy **definitions** appear in boldface in the text, and are distinguished from words of *special emphasis*, which appear in italics. For further visual contrast,

Some *key points or results* with a high probability of being covered on the exam are block-indented, like this.

Shaded boxes appear in different type with a different right edge format, unlike the main text. It should be easy to see that they offer extensions and case studies of a different character, to be emphasized more or less, at the instructor's discretion.

By popular demand, the questions for review at the ends of chapters have been expanded. They vary in character. Some are frontal prods, asking the student "Did you remember this? If not, look back and memorize." Some are numerical exercises. Others pose open-ended conceptual challenges to tackle in section or seminar. About half the review questions were born as exam questions at UC-Davis. Many invite longer answers than exam questions, however, because time is less scarce during review than in the exam room.

## STUDY GUIDE AND INSTRUCTOR'S MANUAL

Also by popular demand, the *Study Guide* and *Instructor's Manual* have been expanded. Again, the exercises vary in character and length. It is a pleasure to have Professor Osman Suliman of Grambling State University take the lead on writing both. We began working together in much the same way that Charles Kindleberger and I first teamed up for the sixth

and seventh editions. Professor Suliman sent a letter "over the transom" with friendly criticisms of the flow of my argument in a few parts of the eighth edition, especially in Chapter 2. Students and I are in his debt.

## ACKNOWLEDGMENTS

For the ninth edition I received more help than usual from users of earlier editions. I have been guided by the abundant written suggestions and criticisms of Paul Cantor (Herbert H. Lehmann College, CUNY), D. J. Daly (York University), Henry N. Goldstein (University of Oregon), Jacqueline E. Gosline (New York University), Louis Johnston (Bowdoin College), Philip G. King (San Francisco State University), Pamela Langlais (New York University), Kathy A. Lindert (American University of Paris and U.S. Department of Agriculture), Nolin Masih (St. Cloud University), Thomas A. Pugel (New York University), Joseph T. Salerno (Pace University), John Sheahan (Williams College), Howard Stein (Roosevelt University), Osman Suliman (Grambling State University), Harold R. Williams (Kent State University), and Susan J. Ye (George Washington University). Excellent suggestions were also given in conversation by Professors Ali Fatemi, Farhad Nomani, and Ali Rahnema and their students at the American University of Paris, and from my colleagues Terry Alexander, Maite Cabeza-Gutés, Robert Feenstra, and Wing Thye Woo and a host of students at the University of California–Davis. In the background there is the perennial help from my whole family. This edition is dedicated to them, especially to my father on his 80th birthday and to Lin on our 25th anniversary.

*Peter H. Lindert*

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