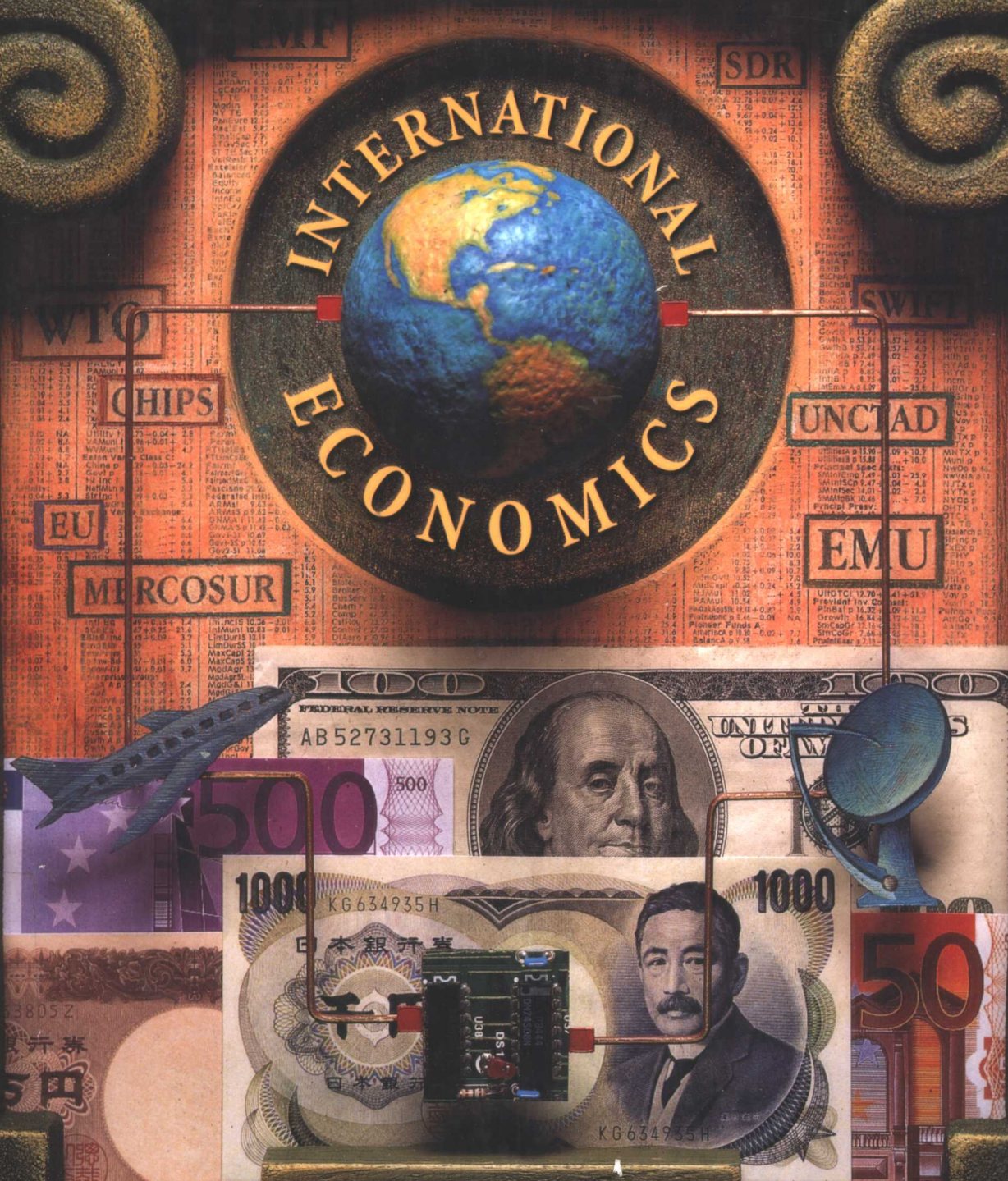


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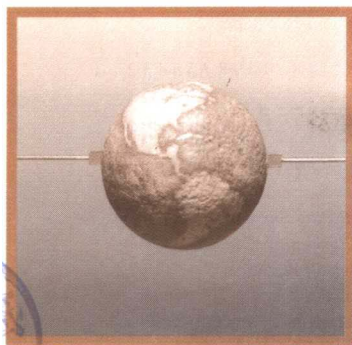
# INTERNATIONAL ECONOMICS



ELEVENTH EDITION



# INTERNATIONAL ECONOMICS



Thomas A. Pugel

*New York University*

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## *International Economics*

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With this edition, Tom Pugel raises his role. He joined Peter Lindert as coauthor for the tenth edition, and for this eleventh edition Pugel took charge of the revision of the entire book. In recognition, he is now listed as the first author.

As teachers of international economics, we strive to use economic analysis that is rigorous and practical, with a writing style that is concise and readable. We use economic terminology where it enhances the economic logic of the analysis, but we loathe jargon for jargon's sake. We believe that our bicoastal partnership has been highly successful in creating this eleventh edition.

With each year the importance of international economics grows. The world is becoming more integrated, and countries are becoming more interdependent. International trade, direct foreign investments, and international lending and portfolio investments are growing faster than world production. Information and data now spread around the world instantly through the internet and other global electronic media. Increasingly, events and government policy changes in one country affect many other countries. Also increasingly, companies make decisions about production and product development based on global markets.

An enjoyable challenge for a new edition is to incorporate the events that continue to transform the international economy, often as part of the process of globalization (both its upside and its downside). We have gone to great lengths to discuss such important news events as

- The creation of the euro as the new European currency
- Financial crises in Thailand, Indonesia, South Korea, and Russia, as well as the currency crisis in Brazil
- The growing importance of the World Trade Organization as a forum for dispute settlement

- The rise of South America's MERCOSUR as an important regional trade area
- Successful transition by some formerly communist countries in Central and Eastern Europe, but slow or unsuccessful transition by many countries of the former Soviet Union
- The growing debate about immigration into the United States, Canada, and Western Europe

These world events and many others are described and analyzed here as we present applications of the theoretical framework of *International Economics*.

In this edition we also introduce a number of improvements to the overall pedagogical structure of the book.

- We continue to expand the end-of-chapter questions and problems. Each chapter has at least 10, and every odd-numbered question has an answer at the back of the book. (These odd-numbered questions are marked with a diamond as a reminder.)
- Openness to trade can raise a country's growth rate. A new section in Chapter 5 presents the basic concepts, and the relationship of trade policy to growth is taken up again in Chapter 13.
- We enhanced the analysis of product differentiation, monopolistic competition, and trade in Chapter 6. Trade expands the number of varieties of a product available to a buyer, and it tends to lower their prices. Chapter 6 has a new graph showing the determination of the number of varieties and the typical price of a variety.
- The number of countries using antidumping policies has been rising, and the industrialized countries are now both major users and major targets. The discussion of dumping in Chapter 10 is reorganized and sharpened, to explore why exporting firms dump and how the importing country is affected. This analysis leads to a critique of antidumping policy, which is increasingly being used as a protectionist device.
- Chapter 12, "Trade and the Environment," remains unique. It is now more powerful as an analysis of the economics of the interplay between environmental issues and international trade. After exploring whether free trade is anti-environment and whether the World Trade Organization is anti-environment, the chapter builds through the analysis of three types of environmental concerns: purely domestic pollution, transborder pollution, and global environmental problems. We continue to use the specificity rule as a key guide and to explore in depth such battlegrounds as dolphins, sea turtles, extinction of species, overfishing, ozone depletion, and global warming.
- We reorganized the analysis of the political economy of trade policy in Chapter 14, to emphasize the gains and losses of different groups, different types of political activity (voting, lobbying, and contributions),

and the impact of representative democracy. The analysis shows some circumstances in which import protection is unlikely, and others in which it is likely.

- International financial activities have grown rapidly in the past several decades, with the investment managers who control hedge funds becoming important players. We bring this world to life by profiling the best-known global investor, George Soros, in a box in Chapter 17.
- While most countries move toward more flexible exchange rates, some are searching for forms of fixed rates that are more nearly permanent. In Chapter 24 we discuss the growing use of currency boards and the growing interest in “dollarization” (the adoption of another country’s currency as the local currency). This leads into an analysis of monetary union as an “international fix.” As the most important current example, we explore the advantages and disadvantages of European Monetary Union and the adoption of the euro as the unionwide currency.
- Chapter 26 was substantially rewritten to focus on the financial crises of the 1990s. After presenting a history of international lending to developing countries, we examine the causes of financial crises, the use of rescue packages and debt restructuring to resolve them, and proposals for improving the “international financial architecture” to make them less frequent.
- Multinational firms now produce a substantial part of the world’s goods and services. Although we might think that they are replacing international trade, a new section in Chapter 27 shows that direct foreign investment often leads to more international trade, as multinationals exploit comparative advantage when they locate different stages of production in different countries and as their affiliates improve the local marketing of foreign goods produced elsewhere by the multinationals.

We were also careful to retain those stylistic goals—clarity and honesty—that have made *International Economics* an extraordinary success in classrooms around the world. We give the student plenty of quick road signs at the start and end of each chapter, signs that implicitly say “Here’s where we’re going; here’s where we’ve just been.” Similarly, almost every paragraph leads off with its keynote sentence. We are candid about ranking the importance of some tools or facts ahead of 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 oversold. Some facts are weightier than others, and we tried to order them carefully.

The format of the book is 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.

## Acknowledgments

We are pleased to pay our respects once again to Charles P. Kindleberger, the author of the first five editions of this textbook.

We offer our deepest thanks to the many people whose advice helped us in our efforts to improve *International Economics* with each edition. We love teaching this material, and we are indebted to our students for many suggestions and insights. We especially thank Pugel's colleagues Jose Campa and Harvey Ponichack for their detailed comments on the tenth edition and suggestions for the eleventh. We also thank A. E. Safarian (University of Toronto) and James Stodder (Hartford Graduate Center) for their written comments and suggestions and Pugel's colleagues Richard Levich and Roy Smith for their help with specific topics in international finance.

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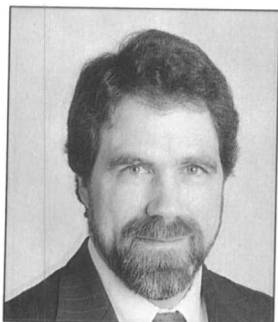
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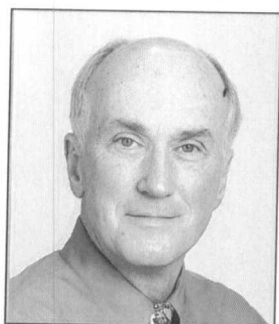
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