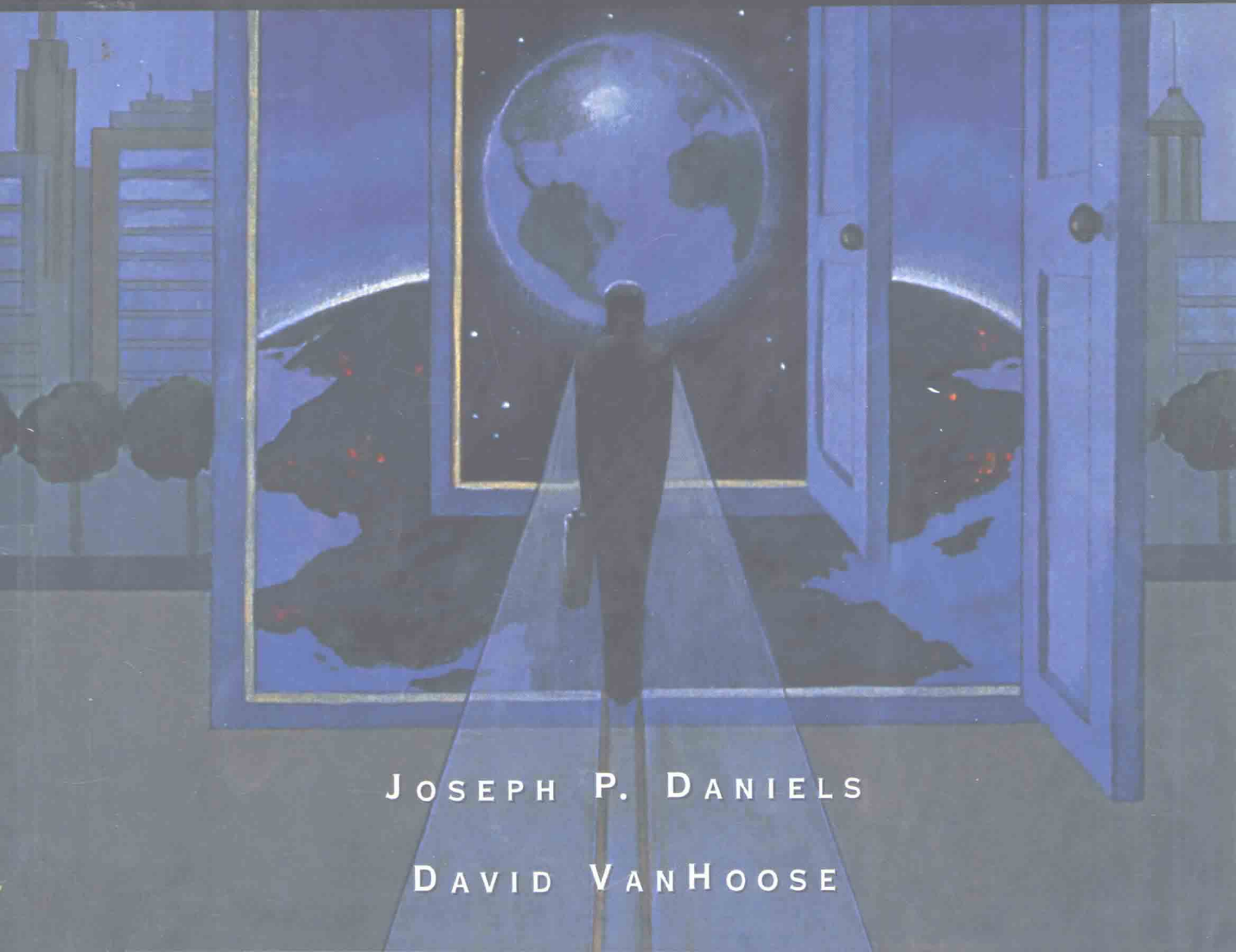


SECOND EDITION

INTERNATIONAL MONETARY
&
FINANCIAL ECONOMICS



JOSEPH P. DANIELS

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INTERNATIONAL MONETARY AND FINANCIAL ECONOMICS

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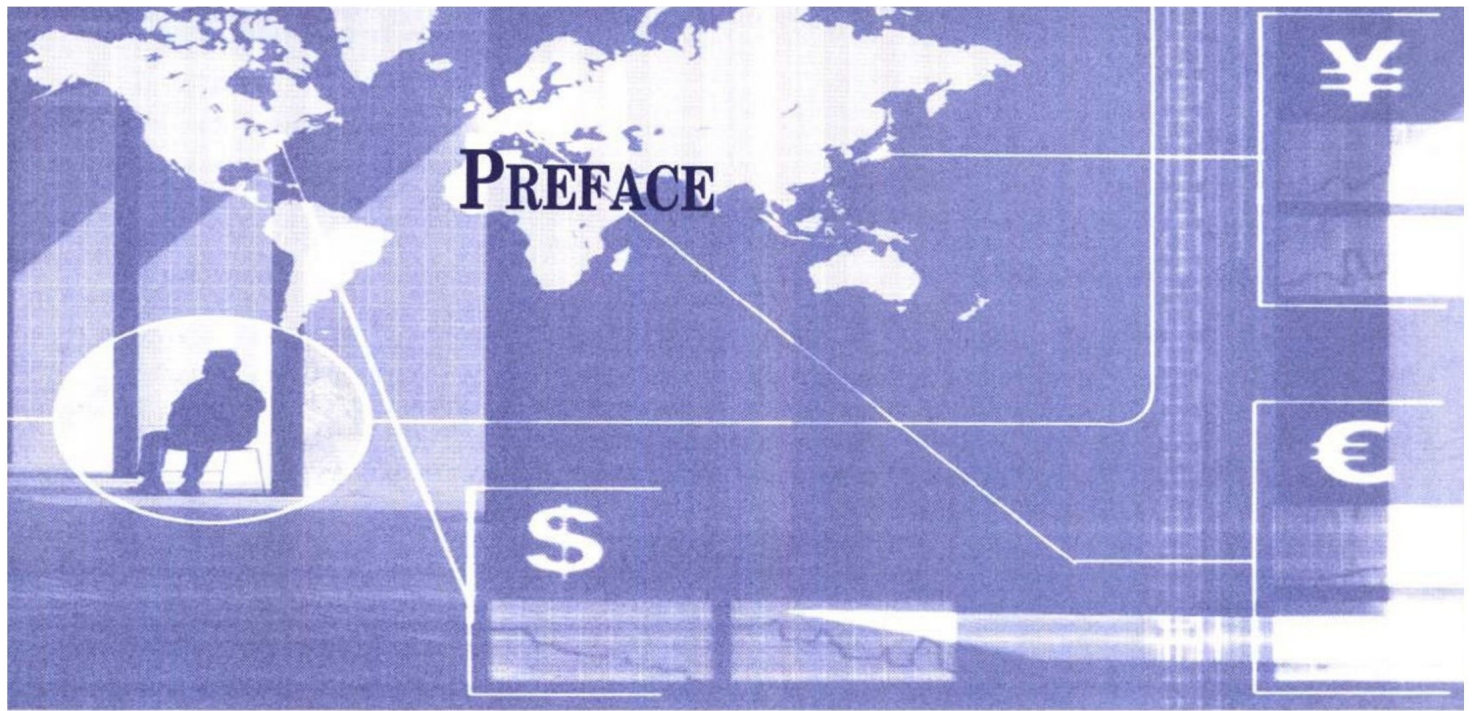
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To Lora, friend, partner and wife.

J.P.D.

To the memory of John H. Wimmer.

D.D.V.



❖ TO THE INSTRUCTOR

We recognized when we wrote the first edition of *International Monetary and Financial Economics* that instructors require an accessible textbook addressing the full range of topics that should be touched upon in a complete course in international money and finance. There are many texts with a focus on international finance, and there are several good books on open-economy macroeconomics. We sought to develop a book that encompasses these broad areas, thereby simplifying the instructor's efforts to cover all relevant topics in international monetary and financial economics. Our fundamental goal in developing this second edition has been to continue to make this the most pedagogically sound text in the field. Toward this end, new to this edition are the following:

- Power point slides focusing on the main issues of each chapter are now available to instructors.
- An updated and enhanced *Instructor's Manual/Test Bank*.
- A total of 31 new learning-motivating *Policy Notebook* and *Management Notebook* features illustrating the applicability of international monetary and financial economics to up-to-date topics of current interest.

Within the text, we have addressed several fundamental issues that have emerged in recent years, including:

- Debt relief for the heavily indebted poor countries (Chapter 1).
- Dollarization of the economy as a policy option (Chapter 3).
- The debate over capital controls and capital market liberalization (Chapters 6 and 15).
- Proposed changes in international standards for bank capital (Chapter 7).
- The continuing evolution of the European Monetary Union and the growing importance of the euro to international financial markets and policy-makers (integrated throughout the text)
- Financial crises and the role of multinational institutions (the entirely new Chapter 15).

Of course, we have strengthened the key elements of the original edition of the book, such as:

- Sharpened presentations of the economics of spot and forward exchange markets, spatial and triangular arbitrage, purchasing power parity, and interest parity.
- Updated and expanded coverage of markets for international financial instruments, including derivative securities.
- Tightened in-depth treatment of the traditional, monetary, and portfolio approaches to the balance of payments and exchange rates.

❖ FEATURES THAT TEACH AND REINFORCE

Our feeling continues to be that there is no reason that a text in international monetary and financial economics lacks discussion of real-world applications. To motivate student learning, we have included examples drawn from nations throughout the world. In addition, updated features are incorporated throughout the text:

Policy Notebooks

International monetary and financial policy issues dominate the news. Hence, new features covering a wide range of recent policy issues appear at appropriate locations. Topics covered include:

- Does the Border Between Canada and the United States Matter?
- The International Monetary Fund—Dismantle or Reform?
- Should Argentina Dollarize?
- Is Capital Market Liberalization the Right Policy?
- Are the Days of Central Bank Secrecy Numbered?
- The Worst of Both Worlds in Poland?
- Do Labor-Market “Inflexibilities” Contribute to Higher Unemployment?

- Central Bank Independence May Not Be All It's Cracked Up to Be.
- Do Financial Markets Predict Financial Crises?

Management Notebooks

Businesspeople can no longer ignore international developments, which continually present both opportunities and challenges. To acquaint students with the variety of international financial issues faced by managers, we have included features on topics such as the following:

- Are Trade and Foreign Direct Investment Substitutes or Complements?
- How Sensitive Are Manufactures to Exchange-Rate Changes?
- Do Exporters Pass Through Exchange-Rate Fluctuations?
- The Global Equities Explosion.
- Is International Stock Trading Complicating Exchange Rate Forecasting?
- Inflation, Deflation, and the Tough Choice between Debt and Equity Financing.
- Will the Euro Become the Favored Currency of Organized Crime?
- Already a Challenge in One Country, Monetary Policy Goes Multilingual.

Critical Thinking and Discussion Exercises

Critical thinking is an important aspect of every college student's education. We make sure that students are introduced to critical-thinking activities by ending each *Policy Notebook* and *Management Notebook* with critical-thinking questions called "For Critical Analysis and Discussion." The suggested answers to these critical-thinking questions are included in the *Instructor's Manual*.

Global Access to the Internet: The World Wide Web

Today, students around the world know how to use the Internet. This second edition again provides two very useful features for them:

1. **Margin URLs:** A feature entitled "On the Web" appears in the left-hand margin throughout the text. At appropriate locations relative to text discussions, a URL is presented.
2. **Chapter-Ending On-Line Applications:** Each chapter concludes with an extensive Internet exercise. Each of these new and updated exercises guides the student to a particular URL and provides a set of application questions.

❖ SPECIAL NOTE ON THE GRAPHS

We have spent considerable effort in developing more than 175 graphs for this textbook. All are shaded in a consistent manner to assist students in under-

standing the relationships among the various schedules. In addition, we have provided full explanations in captions that appear below or alongside each graph or set of graphs.

❖ KEY PEDAGOGY

Student learning must be an active process. We have included an ample number of pedagogical devices to help students master the material.

Fundamental Issues and Answers Within the Text of Each Chapter

A unique feature of *International Monetary and Financial Economics* is the inclusion of five to seven fundamental issues—written in the form of a question—at the opening of each chapter. At appropriate locations within the chapter, these fundamental issues are repeated, and appropriate answers are provided. This allows the student to immediately see the relationship between the text materials and the fundamental issues while reading the chapter.

Vocabulary Is Emphasized

Vocabulary is often a stumbling block in economics courses, and this can be a particular difficulty for students in a course in international economics. Consequently, we have **boldfaced** all important vocabulary terms within the text. Immediately in the margin these boldfaced terms are defined. They are further defined in the end-of-text glossary.

Chapter Summary

The chapter summary is a numbered point-by-point formatting that corresponds to the chapter-opening fundamental issues, further reinforcing the full circular nature of the learning process for each chapter.

Questions and Problems

Each chapter ends with several questions and problems. Suggested answers are provided in the *Instructor's Manual/Test Bank*.

References and Recommended Readings

Appropriate references for materials in the chapter are given in this section.

Instructor's Manual/Test Bank

The *Instructor's Manual/Test Bank*, which was written by Marc von der Ruhr, is designed to simplify the teaching tasks faced by instructors of courses in

international money and finance. It provides chapter learning objectives, chapter outlines, summaries of in-text pedagogy, answers to end-of-chapter questions and problems, and multiple-choice questions.

❖ ACKNOWLEDGMENTS

We benefited from an extremely active and conscientious groups of reviewers of the first and second editions of *International Monetary and Financial Economics*. Several of the reviewers went above and beyond the call of duty, and our rewrites of the manuscript improved accordingly. To the following reviewers, we extend our sincere appreciation for the critical nature of your comments that we think helped make this a better text.

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We anticipate revising this text for years to come and therefore welcome all comments and criticism from students and instructors alike.

J.P.D.
D.D.V



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