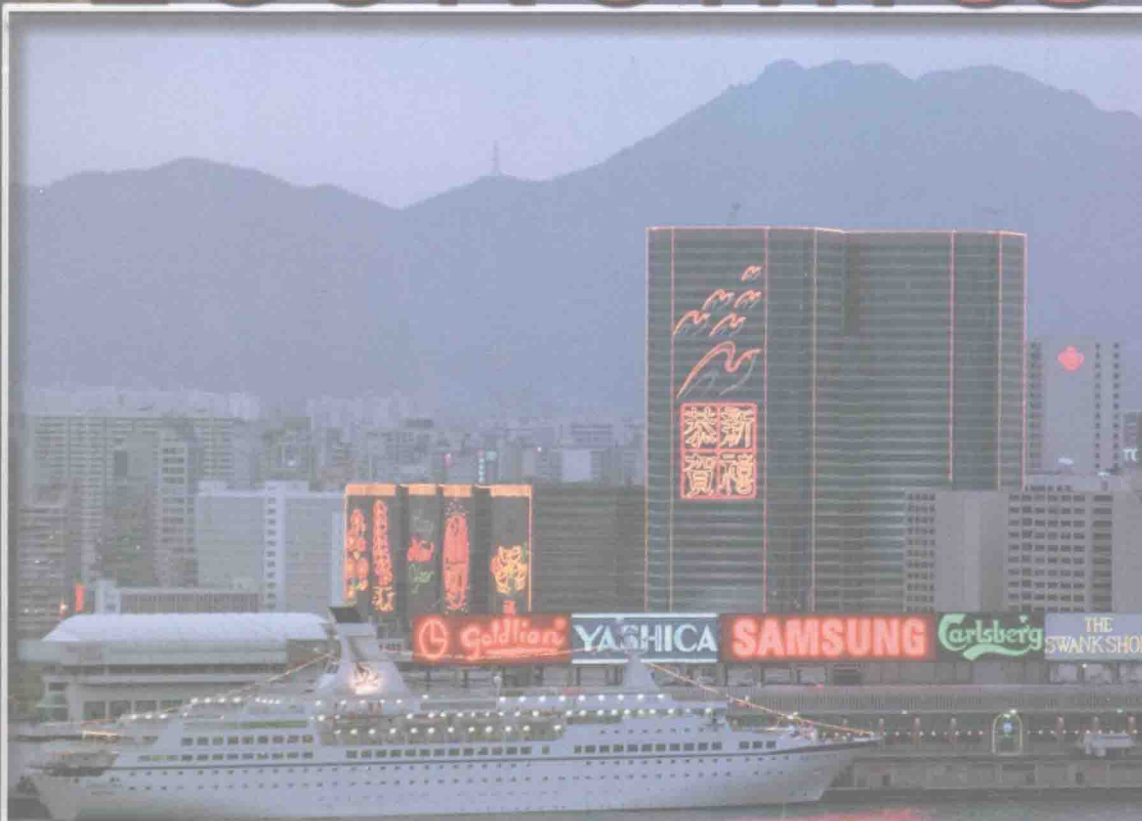
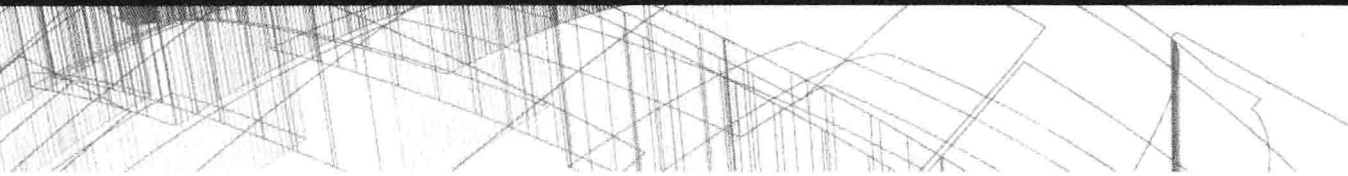


International ECONOMICS



W. Charles Sawyer
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An abstract geometric line drawing in the top left corner, consisting of numerous overlapping, intersecting lines that form a complex, wireframe-like structure. The lines are thin and grey, set against a white background.

Preface

It is difficult to get through a day without the world economy touching our lives in some way. Everyday, we spend much of our time either consuming goods and services from or producing goods and services for other countries. Our exposure to the language of international economics is pervasive as terms like the exchange rate, trade balance, WTO, or NAFTA frequently appear in newspapers, magazines, news programs, and the Internet. In addition, the profitability of many businesses depends on their ability to effectively manage an increasingly global business environment. Governments also must deal with the world economy's influence on public policy. With international trade in goods and services in most countries becoming an increasingly large percentage of total economic activity, national governments find it essential to consider the international aspects of their policy.

Despite the importance of international economics, general knowledge about the subject is often superficial at best. This lack of understanding has resulted in an increasing number of students who are enrolling in international economics courses.

Audience: A Diverse Mix of Students

Until recently, international economics was a course that only economics majors who had completed courses in intermediate microeconomic and macroeconomic theory took. As international economics has become such an obviously important subject in business, government, and our daily lives, the enrollment in international economics courses has been increasing. This increase in enrollments is not due to a sudden boom in the number of economics majors. Rather, it is related to the growing number of students taking the course who are *not* majoring in economics. Many business majors now take international economics as part of their core degree requirements, and the course has become a common elective course for MBA students attempting to get a more global perspective on business problems. The international economics course is a natural part of the curriculum for liberal arts students majoring in international or regional studies. Finally, an increasing number of political science or public administration students take the course as global economic conditions have increasingly important effects on the public sector. The diversity of students enrolled in international economics today is the main reason why we wrote *International Economics*.

Approach: Preparing Students for Successful Careers

Most international textbooks are written with two unstated assumptions. The first is that the students enrolled in the course are economics majors. The second is that most of these students need to learn international economics in a way that prepares them to take the *next* course in international economics. Increasingly, neither of these assumptions is correct as an ever-larger percentage of the students taking this course are not economics majors, and most economics majors are not planning to attend graduate school in economics. The typical economics major is headed for law school, an MBA program, or a career. A book designed to prepare students for graduate work in economics is not likely to serve the interests of economics majors much less nonmajors.

The reality is that most students studying international economics need to prepare for success in their chosen careers. To us this means two things. First, students need to learn the parts of international economic theory that they will most likely need to know for a career in the public or private sector. Second, learning some theory will not do these students much good if they cannot apply it. This book's approach is to apply basic economic theory to international economic issues. In one sense, the approach in *International Economics* is simpler because it is less purely theoretical. However, learning some economic theory, what the theory *means*, and how to use it is not so easy.

Our approach is driven by what we are trying to accomplish. Most students entering this course have only a vague understanding of the terminology associated with international economics. The main goal of *International Economics* is to guide students to the point in which they can easily understand any information on international economics that they may encounter in their careers. If students can understand and apply international economics, then they have a good chance of having a more successful career. Both of us have spent some time teaching in executive MBA programs and have found that the average midcareer manager knows little more about international economics than the typical junior in college. This lack of knowledge makes them uncomfortable and in many cases, may be costing them higher salaries and/or promotions. These students have been invaluable in teaching us what our younger students need to know before they start their careers: basic theory and how to apply it.

Pedagogy: Teaching and Applying Theory

Most international economics textbooks are trying, in varying degrees, to do three things. First they are teaching some new theoretical tools. Second, they are teaching students how to apply these tools in a “real world” context. Finally, they are preparing students for further study in international economics. But teaching international economics to a diverse group of majors using a book designed for economics majors is like trying to juggle too many balls: It can lead to a lot of frustration. To make the course easier to teach and more useful to the new students

taking this course, we have adopted a different pedagogical approach to the subject. Because most students taking this course have either had a one-semester survey course or the traditional two-semester principles of microeconomics and macroeconomics, the theory we use throughout this book to analyze economics is the same theory students have already learned in principles of economics. This approach accomplishes two things. First, instructors have to teach little if any “new” theory. This allows them to move at a much faster pace and cover much more of the subject than would be the case if they spent a substantial amount of class time teaching theory that many of the students have not been prepared to easily learn. Second, it becomes much easier to focus on applying the theory. Since the students are seeing the theory for the “second” time, they can spend more time on learning how to apply the theory and to use it in their careers.

The book employs a number of pedagogical features to reinforce this basic approach.

- ❑ The book is written in a user-friendly style that emphasizes how to use international economic theory and where to apply it.
- ❑ Students can’t possibly comprehend international economics unless they know the specialized terms of the discipline. That’s why we define important terms in the margins. The margin definitions provide a quick way for students to recognize the terms that are important to know. In addition, students may not always have time to read the entire chapter before the lecture and studying the margin terms before the lecture could improve their understanding of it.
- ❑ We can’t assume that students will remember everything they learned in their principles of economics course. That’s why we provide a quick review of economic principles at key points within the text. This gives instructors the flexibility to review the material in class or to let students review the material on their own. To accommodate those students who have had only the one-semester survey course (which is usually less oriented toward macroeconomics), these reviews are more extensive in the second half of the book.
- ❑ Although applications of international economics are liberally distributed throughout the text, each chapter includes a number of boxes that provide more extensive examples or applications of the theory previously described in the text.
- ❑ The end-of-chapter questions accomplish two things. First, many of the questions are designed to encourage students to describe what they know in their own words. This allows them to discover what they *don’t* know before it really matters (i.e., an exam). Second, the remaining questions are designed to motivate students to either apply the theory and/or to think about issues that the theory implies.
- ❑ International economics is like macroeconomics in the sense that data is an important complement to the theory. That is why each chapter

ends with a “Where to Find Information” section. These sections provide students with options for exploring both traditional and Internet-based sources of information on the concepts they’ve learned in the chapter. For instructors who want to assign out-of-class coursework, these sections enable them to easily direct students to the information needed for these assignments.

Features: Content that Makes a Difference

Beyond the book’s basic approach and pedagogy, *International Economics* contains some content-oriented features that represent a somewhat different approach to teaching the course.

- ❑ **Data**—The world of international economics is full of numerical data. However, this is not always reflected in the way international economics textbooks teach the subject. In this book, there is a more extensive presentation of international economic data than is usually the case. For example, it is quite possible for an international economics text to neglect to mention the size of the world economy. In *International Economics* that number is just the starting point for discussing other types of international economic data. However, in the discipline of international economics, the numbers can seem, at first glance, to be implausibly large. To remedy these perceptual problems, we put the data into perspective with regard to national economies and the world economy so that students can see how international economic data compares with national economies and the world economy. For example, learning that U.S. exports are over \$1 trillion is a useful thing to know. If you also learn that the size of the U.S. economy is \$10 trillion and the size of the world economy is \$31 trillion, then the information on U.S. exports has more meaning. Students learn not only how large exports are, but how they fit into the economy overall.
- ❑ **Intraindustry Trade**—Intraindustry trade has become an extremely important part of total international trade. The explanations for this type of trade are different than those used to explain interindustry trade. To adequately cover both the phenomenon and its explanations, intraindustry trade is covered in a separate chapter (Chapter 4).
- ❑ **Factor Movements**—The international movements of labor and capital play a critical role in the world economy today. Immigrants are now a large part of the population in many developed countries, and firms building plants and investors buying stocks and bonds in other countries are just a normal part of the global business environment. The importance of these labor and capital movements is one of the reasons why we cover factor movements in a separate chapter early in the book (Chapter 5). Since the factors that drive these movements

can be related to the traditional explanations of international trade, the early placement of this chapter makes the material easier to teach and learn.

- ❑ **Public Choice—Tariff and nontariff barriers to trade** are policies made in a political market. Students need to know not only what effects these barriers have on trade but also why they exist in the first place. The chapter on public choice (Chapter 8) is designed to explain the process that leads to trade barriers. This chapter also enables students to better understand both today's trade policy debates and those they will no doubt encounter during their careers.
- ❑ **The Relationship between the Current Account and Capital Account**—In addition to the traditional emphasis on the current account, *International Economics* highlights the role of the capital account. The discussion is focused on the relationship among the current account, the capital account, GDP, and the components of GDP. These relationships are identified first in Chapter 10 and are an integral part of the discussion of open economy macroeconomics in Chapters 15 through 18.
- ❑ **Asset Market Approach to Exchange-Rate Determination**—The approach we use to explain the determination of exchange rates is the modern asset market approach. The focus is on how interest rates and other factors cause short run changes in exchange rates. Chapter 14 on purchasing power parity emphasizes the concept as a useful reference point in analyzing commonly used terms such as “overvalued” or “undervalued” exchange rates.
- ❑ **Open Economy Macroeconomics**—The focus of *International Economics* is on how changes in the exchange rate affect output and the price level. In much of our discussion we assume that the exchange rate and the current account are usually allowed to adjust to macroeconomic policies aimed at inflation and unemployment. This allows the discussion to be more representative of macroeconomic policy in most countries.
- ❑ **Fixed vs. Flexible Exchange-Rate Systems**—Despite the wide use of flexible exchange-rate systems, fixed exchange rates are still an important part of the international monetary system. However, there are various types of fixed exchange rate systems that vary from the traditional fixed-rate systems that some developing countries use to the more recent currency boards and monetary unions. In order to cover both fixed and flexible exchange rate systems adequately, *International Economics* covers flexible and fixed exchange rate systems separately in Chapters 16 and 17, respectively. The discussion is agnostic with respect to which system is “better.” The final chapter of the book (Chapter 18) outlines the discussion as a choice entailing different mixes of costs and benefits.

Supplementary Materials

Instructor's Manual with testbank. The Instructor's Manual with testbank contains a chapter outline and summary for each chapter, answers to the end-of-chapter questions, lecture suggestions, and a complete bank of questions for quizzes and tests. The testbank is also available in a computerized format. The **TestGen-EQ test generating software** allows instructors to custom design, save, and generate classroom tests. The test program permits instructors to edit, add, or delete questions from the test banks; edit existing graphics and create new graphics; analyze test results; and organize a database of tests and student results. This new software allows for greater flexibility and ease of use. It provides many options for organizing and displaying tests, along with a search and sort feature.

The Companion Web site (www.prenhall.com/sawyer) is a content-rich, Web site with Internet exercises, activities, and resources related specifically to the first edition of *International Economics*. It includes the following features:

Syllabus Manager

Downloadable Supplements

Including the following:

Transparency Masters for all figures and tables in the text

Instructor's Manual

PowerPoint Lecture Presentation This lecture presentation tool, prepared by Marie Truesdell of Marian College, offers outlines and summaries of important text material, tables and graphs that build, and additional exercises. The package will allow for instructors to make full-color, professional-looking presentations while providing the ability for custom handouts to be provided to the students.

Online Study Guide. These practice quizzes for Sawyer and Sprinkle, prepared by Cecilia Winters of Manhattanville College, contain a variety of question types. The multiple choice questions test the students knowledge of the chapters' material, the essay questions further challenge the student to analyze concepts, and the internet exercises ask students to go to the web to research and analyze real world situations. The Online Study Guide grades each question submitted by the student, provides immediate feedback for correct and incorrect answers, and allows students to e-mail their results.

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Throughout this process various people have contributed to seeing that the book finally made it into print. We are grateful to Rod Banister (Executive Editor) for understanding at the outset what we were trying to do with this book. Gladys Soto (Managing Editor) really did what her title implies. Without her consistent support this book would still be a manuscript. Michael Elia, Audrey Regan, and especially Rebecca Johnson turned the manuscript into a far more readable book. Lisa Amato (Editorial Assistant), Kerri Limpert (Production Editor), Marie McHale (Assistant Editor), and Kathleen Mclellan (Marketing Manager) helped us with the maze of details that are the end of the production process. We are grateful to all of these people for their competence and patience.

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