


SIXTH
EDITION

INTERNATIONAL

ECONOMICS

The background of the cover is a complex collage. It features various international currencies, including Mexican pesos (with the word 'pesos' visible) and US dollars. There are also stylized representations of a world map and glowing blue lines that suggest global connectivity or economic flows. The overall color palette is dominated by red, green, and gold.

DOMINICK SALVATORE

SIXTH EDITION

INTERNATIONAL ECONOMICS

DOMINICK SALVATORE

Fordham University



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To Lucille

PREFACE

This is the sixth edition of a text that has enjoyed a flattering market success, having been *adopted by more than 500 colleges and universities* throughout the United States, Canada, and other English-speaking countries. All of the features that made the previous editions of this text one of the leading texts of international economics in the United States have been retained in the sixth edition, but the content has been thoroughly updated and expanded to include many new significant topics and important recent developments.

SIGNIFICANT INTERNATIONAL DEVELOPMENTS EXAMINED IN THE SIXTH EDITION

The main objective of the sixth edition of this text is to present a comprehensive, up-to-date, and clear exposition of the theory and principles of international economics that are essential for understanding, evaluating, and suggesting solutions to the important international economic problems and issues facing the United States and the world at the end of the century. These are:

1. Despite the successful completion of the Uruguay Round in December 1993, trade protectionism remains high and the world is breaking up into three major trading blocs.
2. The globalization of capital markets has led to volatile and misaligned exchange rates, unstable financial conditions, and has further eroded governments' control over domestic monetary matters.
3. The high structural unemployment in Europe has dampened the growth of world trade and led to more trade disputes.
4. Rapid technological change, globalization, and increased international competition are causing widespread downsizing and job insecurity in the United States.
5. The restructuring of the economies of Central/Eastern Europe and the former Soviet Union is not proceeding as evenly and as rapidly as expected, and this presents major challenges for the entire world.

6. The deep poverty in many developing countries and the widening international inequalities pose serious moral, political, and developmental problems in the world today.

These events significantly affect U.S. well-being but are, to a large extent, beyond its control.

NEW TO THE SIXTH EDITION

In the international trade part an extensive discussion and analysis of the effect of the Uruguay Round (in Chapter 9), North American Free Trade Agreement (NAFTA), and the expansion of the European Union (in Chapter 10) have been included.

In the international finance part a new chapter has been added, "Exchange Rate Determination," to examine the modern financial theories of exchange rate determination (Chapter 15).

Case studies have been increased to 92; one-third the cases are new and the rest have been extensively revised and updated.

Chapter 1 has been revised to identify the major international economic (trade and finance) problems facing the United States and the world today, as well as the discussion (in Chapter 21) of how they can be resolved.

The chapter on the balance of payments has been shifted to precede the chapter on foreign exchange markets and the latter has been greatly expanded to reflect new financial instruments and institutions.

New sections and cases in trade theory and policy include: international trade and endogenous growth theory, international trade and U.S. wage inequalities, the United States as the most competitive economy in the world, gains from the Uruguay Round, gains from NAFTA, Mercosur, the East Asian miracle of trade and growth, and the debate over U.S. immigration policy.

New sections and cases in international finance include the asset market model and exchange rates, the U.S. dollar as the dominant vehicle currency, size and growth of the Eurocurrency market, the Euro versus the dollar, rising competition in global banking, capital mobility and central bank independence, and reform of the international monetary system.

More international trade and finance data are included throughout the text.

AUDIENCE AND LEVEL

This text presents all of the principles and theories essential for a thorough understanding of international economics. It does so on an intuitive level in the text itself, and more rigorously in the appendices at the end of most chapters. In addition, partial equilibrium analysis is presented before the more difficult general equilibrium analysis (which is optional). Thus, the book is designed for flexibility. It also over-

comes the shortcomings of other international economics texts in which the level of analysis is either too complicated or too simplistic.

ORGANIZATION OF THE BOOK

The book is organized into four parts. Part One (Chapters 2–7) deals with trade theory (i.e., the basis and the gains from trade). Part Two (Chapters 8–12) deals with trade policy (i.e., obstructions to the flow of trade). Part Three (Chapters 13–15) deals with the measurement of a nation's balance of payments, foreign exchange markets, and exchange rate determination. Part Four (Chapters 16–21) examines open-economy macroeconomics or the macro relationships between the domestic economy and the rest of the world, as well as the operation of the present international monetary system.

In the typical one-semester undergraduate course in international economics, instructors may wish to cover the ten core chapters (2–3, 5, 9, 13–17, 21) as well as the few other asterisked sections in other chapters, and exclude the appendices. Undergraduate courses in international trade could cover Chapters 1 to 12 and 21, while undergraduate courses in international finance could cover Chapters 1 and 13–21. The many examples and real-world case studies presented also make the text very suitable for international economics courses in business programs. In first-year graduate courses in international economics and business, instructors may want to cover the appendices also and assign readings from the extensive bibliography at the end of each chapter.

FOR THE STUDENT

- *The same example is utilized in all the chapters dealing with the same basic concept.* This feature is unique to this text. For example, the same graphical and numerical model is used in every chapter, from Chapters 2 through 10 (the chapters that deal with trade theory and policy). This greatly reduces the real burden on the student, who does not have to start afresh with a new example each time.
- *Actual numbers are used in the examples and the graphs are presented on scales.* This makes the various concepts and theories presented more concrete, accessible, and pertinent to the student, and the graphs easier to read and understand.
- *There are 92 case studies (from four to seven per chapter).* These real-world case studies are generally short and to the point and serve to reinforce understanding of and highlight the most important topics presented in the chapter.
- *The sections of each chapter are numbered for easy reference.* Longer sections are broken into two or more numbered subsections. All of the graphs and diagrams are carefully explained in the text and then summarized briefly in the captions.
- *The judicious use of color and shading enhances the readability of the text and aids the student's understanding.*

- *Each chapter ends with the following teaching aids:*

Summary—A paragraph reviews each section of the text.

A Look Ahead—Describes what follows in the subsequent chapter.

Key Terms—Lists the important terms introduced in bold-face type in the chapter. A glossary of all these terms is then provided at the end of the book.

Questions for Review—Fourteen questions (two or more for each section in the chapter).

Problems—Fourteen problems are provided for each chapter. These ask the student to calculate a specific measure or explain a particular event. Brief answers to selected problems (those marked by an asterisk) are provided at the end of the book for feedback.

Appendices—These develop in a more rigorous, but careful and clear fashion, material that is presented on an intuitive level in the chapter.

Selected Bibliography—The most important references are included along with specific notes indicating the topic covered. A separate author index is included at the end of the book.

- A Study Guide prepared by Professor Arthur Raymond of Muhlenberg College is available for students. This provides extensive review of key concepts, numerous additional illustrative examples, and practice problems and exercise sets.
- A *Schaum's Outline on the Theory and Problems of International Economics* (fourth edition, 1996), prepared by the author, can be purchased in most bookstores. This provides a problem-solving approach to the topics presented in the traditional way in this and other international economics texts.

FOR THE INSTRUCTOR

- An *Instructor's Manual* prepared by the author is available which includes chapter objectives and lecture suggestions, answers to the end-of-chapter problems, a set of 15 to 20 multiple-choice questions, with answers, and additional problems and essays for each chapter.
- Transparency masters for all the figures and tables in the text are available in the *Instructor's Manual*.

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Brief Contents

Preface xxix

Chapter 1: Introduction 1

Part One International Trade Theory 23

Chapter 2: The Law of Comparative Advantage 25

Chapter 3: The Standard Theory of International Trade 53

Chapter 4: Demand and Supply, Offer Curves, and the Terms of Trade 83

Chapter 5: Factor Endowments and the Heckscher–Ohlin Theory 109

Chapter 6: Economies of Scale, Imperfect Competition, and International Trade 155

Chapter 7: Economic Growth and International Trade 185

Part Two International Trade Policy 219

Chapter 8: Trade Restrictions: Tariffs 221

Chapter 9: Nontariff Trade Barriers and the New Protectionism 257

Chapter 10: Economic Integration: Customs Unions and Free Trade Areas 299

Chapter 11: International Trade and Economic Development 329

Chapter 12: International Resource Movements and Multinational Corporations 365

Part Three The Balance of Payments and Exchange Rates 395

Chapter 13: Balance of Payments 397

Chapter 14: Foreign Exchange Markets and Exchange Rates 423

Chapter 15: Exchange Rate Determination 465

Part Four Open-Economy Macroeconomics and the International Monetary System 507

Chapter 16: The Price Adjustment Mechanism with Flexible and Fixed Exchange Rates 509

Chapter 17: The Income Adjustment Mechanism and Synthesis of Automatic Adjustments 543

Chapter 18: Open-Economy Macroeconomics: Adjustment Policies 573

vi BRIEF CONTENTS

<i>Chapter 19: Prices and Output in an Open Economy: Aggregate Demand and Aggregate Supply</i>	615
<i>Chapter 20: Flexible Versus Fixed Exchange Rates, the European Monetary System, and Macroeconomic Policy Coordination</i>	645
<i>Chapter 21: The International Monetary System: Past, Present, and Future</i>	677
Answers to Selected Problems	717
Glossary of Key Terms	729
Name Index	747
Subject Index	753

Contents

*Suggested core chapters and sections for a one-semester course in International Economics with background in Principles of Economics only.

***Chapter 1** *Introduction* 1

- 1.1** Importance of International Economics 1
 - Case Study 1-1: Even the IBM PC Isn't All-American* 2
 - Case Study 1-2: What Is an "American" Car?* 3
- 1.2** International Trade and the Nation's Standard of Living 3
 - Case Study 1-3: Rising Importance of International Trade to the United States* 6
- 1.3** The Subject Matter of International Economics 7
- 1.4** Purpose of International Economic Theories and Policies 8
- 1.5** Current International Economic Problems 9
 - 1.5a Trade Protectionism in Industrial Countries 9
 - 1.5b Excessive Fluctuations and Large Disequilibria in Exchange Rates 9
 - 1.5c High Structural Unemployment in Europe 10
 - 1.5d Job Insecurity from Restructuring and Downsizing in the United States 10
 - 1.5e Restructuring Problems Facing Central and Eastern Europe and the Former Soviet Union 10
 - 1.5f Deep Poverty in Many Developing Countries 11
- 1.6** Organization and Methodology of the Text 11
 - 1.6a Organization of the Text 11
 - 1.6b Methodology of the Text 12

Summary 13 • **A Look Ahead** 14 • **Key Terms** 14 • **Questions for Review** 14 • **Problems** 15

Appendix: A1.1 Basic International Trade Data 16
 A1.2 Sources of Additional International Data and Information 20

Selected Bibliography 22

Part One **International Trade Theory** 23

***Chapter 2** *The Law of Comparative Advantage* 25

- 2.1** Introduction 25
- 2.2** The Mercantilists' Views on Trade 26
 - Case Study 2-1: Munn's Mercantilistic Views on Trade* 27

	<i>Case Study 2-2: Mercantilism Is Alive and Well in the Twentieth Century</i>	28
2.3	Trade Based on Absolute Advantage: Adam Smith	27
2.3a	Absolute Advantage	28
2.3b	Illustration of Absolute Advantage	29
2.4	Trade Based on Comparative Advantage: David Ricardo	30
2.4a	The Law of Comparative Advantage	31
2.4b	The Gains from Trade	31
2.4c	Exception to the Law of Comparative Advantage	33
2.4d	Comparative Advantage with Money	34
2.5	Comparative Advantage and Opportunity Costs	35
2.5a	Comparative Advantage and the Labor Theory of Value	36
	<i>Case Study 2-3: The Petition of the Candlemakers</i>	36
2.5b	The Opportunity Cost Theory	37
2.5c	The Production Possibility Frontier Under Constant Costs	38
2.5d	Opportunity Costs and Relative Commodity Prices	39
2.6	The Basis for and the Gains from Trade Under Constant Costs	40
2.6a	Illustration of the Gains from Trade	40
2.6b	Relative Commodity Prices with Trade	41
2.7	Empirical Tests of the Ricardan Model	43
Summary	45 • A Look Ahead	46 • Key Terms
Problems	47 • Questions for Review	47 •
Appendix:	A2.1 Comparative Advantage with More Than Two Commodities	49
	A2.2 Comparative Advantage with More Than Two Nations	51
	Selected Bibliography	51
*Chapter 3	<i>The Standard Theory of International Trade</i>	53
3.1	Introduction	53
3.2	The Production Frontier with Increasing Costs	53
3.2a	Illustration of Increasing Costs	54
3.2b	The Marginal Rate of Transformation	55
3.2c	Reasons for Increasing Opportunity Costs and Different Production Frontiers	55
3.3	Community Indifference Curves	56
3.3a	Illustration of Community Indifference Curves	56
3.3b	The Marginal Rate of Substitution	57
3.3c	Some Difficulties with Community Indifference Curves	58
3.4	Equilibrium in Isolation	58
3.4a	Illustration of Equilibrium Isolation	59
3.4b	Equilibrium-Relative Commodity Prices and Comparative Advantage	60
3.5	The Basis for and the Gains from Trade with Increasing Costs	60
3.5a	Illustrations of the Basis for and the Gains from Trade with Increasing Costs	62
	<i>Case Study 3-1: Comparative Advantage of the United States, the European Union, and Japan</i>	61

3.5b	Equilibrium-Relative Commodity Prices with Trade	63
3.5c	Incomplete Specialization	64
<i>Case Study 3-2:</i>	<i>Specialization and Export Concentration in Selected Countries</i>	65
3.5d	Small-Country Case with Increasing Costs	64
3.5e	The Gains from Exchange and from Specialization	66
3.6	Trade Based on Differences in Tastes	67
<i>Case Study 3-3:</i>	<i>Reallocating Labor in the United States:</i>	
	Comparative Advantage at Work	68
3.6a	Illustration of Trade Based on Differences in Tastes	67
Summary	70 • A Look Ahead	71 • Key Terms
Problems	72	71 • Questions for Review
Appendix:	A3.1 Production Functions, Isoquants, Isocosts, and Equilibrium	73
	A3.2 Production Theory with Two Nations, Two Commodities, and Two Factors	75
	A3.3 Derivation of the Edgeworth Box Diagram and Production Frontiers	76
	A3.4 Some Important Conclusions	80
Selected Bibliography		80
Chapter 4	<i>Demand and Supply, Offer Curves, and the Terms of Trade</i>	83
*4.1	Introduction	83
*4.2	The Equilibrium-Relative Commodity Price with Trade— Partial Equilibrium Analysis	83
4.3	Offer Curves	85
	<i>Case Study 4-1: Demand, Supply, and the International Price of Petroleum</i>	86
	<i>Case Study 4-2: The Index of Export to Import Prices for the United States</i>	87
	4.3a Origin and Definition of Offer Curves	85
	4.3b Derivation and Shape of the Offer Curve of Nation 1	86
	4.3c Derivation and Shape of the Offer Curve of Nation 2	89
4.4	The Equilibrium-Relative Commodity Price with Trade— General Equilibrium Analysis	90
4.5	Relationship Between General and Partial Equilibrium Analyses	91
4.6	The Terms of Trade	93
	4.6a Definition and Measurement of the Terms of Trade	93
	4.6b Illustration of the Terms of Trade	94
	4.6c Usefulness of the Model	94
	<i>Case Study 4-3: The Terms of Trade of Industrial and Developing Countries</i>	95
Summary	96 • A Look Ahead	97 • Key Terms
Problems	98	97 • Questions for Review
Appendix:	A4.1 Derivation of a Trade Indifference Curve for Nation 1	99
	A4.2 Derivation of Nation 1's Trade Indifference Map	100
	A4.3 Formal Derivation of Nation 1's Offer Curve	100
	A4.4 Outline of the Formal Derivation of Nation 2's Offer Curve	103
	A4.5 General Equilibrium of Production, Consumption, and Trade	105
	A4.6 Multiple and Unstable Equilibria	107
Selected Bibliography		108

*Chapter 5	<i>Factor Endowments and the Heckscher–Ohlin Theory</i>	109
5.1	Introduction	109
5.2	Assumptions of the Theory	110
5.2a	The Assumptions	110
5.2b	Meaning of the Assumptions	110
5.3	Factor Intensity, Factor Abundance, and the Shape of the Production Frontier	112
5.3a	Factor Intensity	112
5.3b	Factor Abundance	114
5.3c	Factor Abundance and the Shape of the Production Frontier	115
	<i>Case Study 5-1: Relative Resource Endowments</i>	
	of Leading Industrial Countries	117
	<i>Case Study 5-2: Capital-Labor Ratios of Selected Countries</i>	118
5.4	Factor Endowments and the Heckscher–Ohlin Theory	116
5.4a	The Heckscher–Ohlin Theorem	119
5.4b	General Equilibrium Framework of the Heckscher–Ohlin Theory	119
5.4c	Illustration of the Heckscher–Ohlin Theory	121
	<i>Case Study 5-3: Patterns of Comparative Advantage</i>	
	in Leading Industrial Countries	123
5.5	Factor–Price Equalization and Income Distribution	124
5.5a	The Factor–Price Equalization Theorem	124
5.5b	Relative and Absolute Factor–Price Equalization	125
5.5c	Effect of Trade on the Distribution of Income	127
	<i>Case Study 5-4: Has International Trade Increased U.S. Wage Inequalities?</i>	128
5.5d	Empirical Relevance	128
	<i>Case Study 5-5: Convergence of Real Wages Among Industrial Countries</i>	130
5.6	Empirical Tests of the Heckscher–Ohlin Model	129
5.6a	Empirical Results—The Leontief Paradox	130
5.6b	Explanations of the Leontief Paradox	133
5.6c	Factor-Intensity Reversal	136
	<i>Case Study 5-6: Capital and Labor Requirements in U.S. Trade</i>	132
	<i>Case Study 5-7: The Heckscher–Ohlin Model with Skills and Land</i>	135
Summary	137 • A Look Ahead	138 • Key Terms
Problems	139 • Questions for Review	139 •
Appendix:	A5.1 The Edgeworth Box Diagram for Nation 1 and Nation 2	141
	A5.2 Relative Factor–Price Equalization	141
	A5.3 Absolute Factor–Price Equalization	145
	A5.4 Effect of Trade on the Short-Run Distribution of Income: The Specific-Factors Model	146
	A5.5 Illustration of Factor-Intensity Reversal	147
	A5.6 The Elasticity of Substitution and Factor-Intensity Reversal	149
	A5.7 Empirical Tests of Factor-Intensity Reversal	151
Selected Bibliography	151	

Chapter 6 *Economies of Scale, Imperfect Competition, and International Trade* 155

- ***6.1** Introduction 155
- 6.2** The Heckscher–Ohlin Model and New Trade Theories 155
- ***6.3** Economies of Scale and International Trade 157
- ***6.4** Imperfect Competition and International Trade 160
 - 6.4a Trade Based on Product Differentiation 160
 - Case Study 6-1: U.S. Intra-Industry Trade in Automotive Products* 161
 - 6.4b Measuring Intra-Industry Trade 163
 - Case Study 6-2: Growth of Intra-Industry Trade* 164
 - 6.4c Formal Model of Intra-Industry Trade 163
 - 6.4d Another Version of the Intra-Industry Trade Model 166
- 6.5** Trade Based on Dynamic Technological Differences and Synthesis of Trade Theories 168
 - 6.5a Technological Gap and Product Cycle Models 168
 - 6.5b Illustration of the Product Cycle Model 169
 - 6.5c Synthesis of Trade Theories 171
 - Case Study 6-3: The United States as the Most Competitive Economy in the World* 172
- 6.6** Transportation Costs, Environmental Standards, and International Trade 171
 - 6.6a Transportation Costs and Nontraded Commodities 173
 - 6.6b Transportation Costs and the Location of Industry 175
 - Case Study 6-4: The Maquiladoras: U.S. Plants Along the U.S.-Mexican Border* 176
 - 6.6c Environmental Standards, Industry Location, and International Trade 175
- Summary** 177 • **A Look Ahead** 178 • **Key Terms** 178 • **Questions for Review** 178 • **Problems** 179
- Appendix:** A6.1 External Economies and the Pattern of Trade 180
 A6.2 Dynamic External Economies and Specialization 182
- Selected Bibliography** 183

Chapter 7 *Economic Growth and International Trade* 185

- 7.1** Introduction 185
- 7.2** Growth of Factors of Production 186
 - 7.2a Labor Growth and Capital Accumulation Over Time 186
 - 7.2b The Rybczynski Theorem 188
- 7.3** Technical Progress 189
 - 7.3a Neutral, Labor-Saving, and Capital-Saving Technical Progress 190
 - 7.3b Technical Progress and the Nation's Production Frontier 190
 - Case Study 7-1: Changes in Relative Resource Endowments of Leading Industrial Countries* 193
 - Case Study 7-2: Factor Growth and Changes in Comparative Advantage* 194
 - Case Study 7-3: Changes in Capital-Labor Ratios of Selected Countries* 195
- 7.4** Growth and Trade: The Small-Country Case 192