

INTERNATIONAL ECONOMICS

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To Marie and Cathy



To the Instructor

Our goal in writing this book is simple. We hope to provide the student with a guide to the study of international economics that is accessible, comprehensive, relevant, and up-to-date. This text has many of the same features found in most conventional treatments of the subject. The first nine chapters cover topics in international trade theory and policy. The remaining chapters are devoted to topics in international finance. All of the usual issues are covered in depth: comparative advantage, Heckscher–Ohlin theory, commercial policy, trade and growth, balance of payments accounting, theories of balance of payments and exchange rate determination, and open economy macroeconomics. However, the book differs from many competing texts in several important ways.

THE BOOK'S APPROACH AND PEDAGOGICAL FEATURES

First, we have sought to write a text that covers current developments in international economics, but at the same time is accessible to students who may have only had a principles of economics course. To that end we have minimized mathematics and relegated more difficult extensions to appendices. The book contains a wide range of helpful learning aids including a marginal glossary which defines new concepts, boxed items and case studies which present “real-world” counterparts to the ideas being developed in the main text, and a large number of exercises at the end of each chapter. In addition to these exercises, a Study Guide has been prepared by Jacqueline Pomeroy. This guide offers a variety of problems and questions aimed at helping the student explore and learn the text material.

To give the student a better feel for the issues discussed in the text, we have incorporated an extensive amount of data from the real world. For instance,

Chapter 1 is devoted almost entirely to describing national economies and the patterns and directions of international trade. Other tables appear throughout the book. Chapter 2 is one of the more innovative chapters to be found in a textbook on international economics. Its purpose is to provide a review of simple general equilibrium analysis, and, in particular, to introduce students to the logic and method of economic model building.

COVERAGE AND EMPHASIS OF THE TEXT

While we have sought to keep the book accessible, we have not shied away from discussing recent developments in international economics. For instance, in Chapter 5, there is a lengthy discussion of intraindustry trade and its causes and consequences—including the implications of increasing returns to scale and imperfect competition for the commodity composition of trade. A considerable portion of Chapter 5 is devoted to recent tests of the Heckscher–Ohlin model by Leamer and others and to a careful analysis of the approaches to and problems with empirical tests of trade theories.

Strategic trade policy as a justification for protection is discussed in Chapter 7. Chapter 8 provides considerable detail on U.S. trade policy, including the recent use by the Reagan and Bush administrations of trade retaliation under the authority of Section 301 of U.S. trade law. This chapter also includes a summary of the recently passed U.S. trade bill and a comparison of U.S. trade laws with the laws of other countries.

Unlike many competing texts, the focus of the material in the international macroeconomics portion of this text is on flexible exchange rates. Chapter 10 provides an extensive introduction to foreign exchange markets that goes well beyond the detail found in other textbooks. Chapters 12 and 13 continue the focus on flexible exchange rates by considering long-run behavior (purchasing power parity) and short-run behavior (interest rate parity). Chapter 14, which should be of special interest to business students, discusses foreign exchange risk, foreign exchange forecasting, and international capital flows. Chapter 18 provides a treatment of international lending, the offshore banking industry, the international debt problem, and country risk analysis.

Chapters 15 and 16 are devoted to the theoretical analysis of balance of payments and exchange rate determination. Again, following developments in the real world, the primary focus is on various competing theories of exchange rate determination. Chapter 16, for instance, discusses the asset approach to exchange rate determination and includes material on exchange rate overshooting, currency substitution, and the role of “news” in currency markets. Chapter 19 analyzes the advantages and disadvantages of international policy coordination and describes the 1985 Plaza Agreement.

ALTERNATIVE COURSE OUTLINES

The text is designed to provide sufficient flexibility to be used for a one-term survey of international economics or two separate terms devoted to a more comprehensive study of international trade and international finance. Realizing that individual instructors may have unique preferences regarding material to be presented, we offer the following suggestions:

- For a one-term overview of international economics: Chapters 1–4, 6–8, 10–13, 17–18
- For a one-term course in international trade theory: Chapters 1–9
- For a one-term course in international finance: Chapters 10–19

We have prepared an Instructor's Manual to accompany the text. We hope you will find it useful.

Acknowledgments

No textbook can be written without imposing on friends and colleagues for comments, criticism, and ideas. We owe considerable debts to a number of people: Jim Cassing, Ked Hogan, Douglas Irwin, Ali Kutan, and Jacquie Pomeroy. Special mention should go to Professor Marie Connolly, who read, edited, and proofread a considerable portion of the text and to Professor Lawrence Officer, whose ideas about content and level of presentation were utilized heavily in the first part of the text.

Throughout the course of writing this text, we benefitted from the comments of external readers, including Mohsen Bahmani-Oskooee, Phillip J. Bryson, Steven Skeet Chang, Robert V. Cherneff, Joseph A. McKinney, Michael H. Moffett, Garry Brooks Stone, Harold R. Williams, and Darrel Young. We were not always able to incorporate all of their excellent suggestions, but they have added greatly to the final product. The editorial staff at Harper & Row, including Steve Pisano, Dean Ragland, and Jack Greenman, have made our task as pleasant as possible. Mark Twain's description of Harper & Row appears still to be true: "good people go there to stay."

Finally, we owe a debt of gratitude to our families for supporting our efforts and to many former international economics students who helped to shape our ideas regarding the appropriate methods and topics for our classes and this text.

Steven Husted
Michael Melvin

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