

Chapter 1

Introduction

■ Chapter Organization

What Is International Economics About?

The Gains from Trade

The Pattern of Trade

How Much Trade?

Balance of Payments

Exchange Rate Determination

International Policy Coordination

The International Capital Market

International Economics: Trade and Money

■ Chapter Overview

The intent of this chapter is to provide both an overview of the subject matter of international economics and to provide a guide to the organization of the text. It is relatively easy for an instructor to motivate the study of international trade and finance. The front pages of newspapers, the covers of magazines, and the lead reports on television news broadcasts herald the interdependence of the U.S. economy with the rest of the world. This interdependence may also be recognized by students through their purchases of imports of all sorts of goods, their personal observations of the effects of dislocations due to international competition, and their experience through travel abroad.

The study of the theory of international economics generates an understanding of many key events that shape our domestic and international environment. In recent history, these events include the causes and consequences of the large current account deficits of the United States; the dramatic appreciation of the dollar during the first half of the 1980s followed by its rapid depreciation in the second half of the 1980s; the Latin American debt crisis of the 1980s and the Mexican crisis in late 1994; and the increased pressures for industry protection against foreign competition broadly voiced in the late 1980s and more vocally espoused in the first half of the 1990s. The financial crisis that began in East Asia in 1997 and spread to many countries around the globe and the Economic and Monetary Union in Europe highlight the way in which various national economies are linked and how important it is for us to understand these connections. These global linkages have been highlighted yet again with how a bust in the American housing market rapidly spread throughout the world, turning into a global financial crisis through linkages across international capital markets. At the same time, protests at global economic meetings and a rising wave of protectionist rhetoric have highlighted opposition to globalization. The text material will enable students to understand the economic context in which such events occur.

Chapter 1 of the text presents data demonstrating the growth in trade and the increasing importance of international economics. This chapter also highlights and briefly discusses seven themes that arise throughout the book. These themes are (1) the gains from trade, (2) the pattern of trade, (3) protectionism, (4) the balance of payments, (5) exchange rate determination, (6) international policy coordination, and (7) the international capital market. Students will recognize that many of the central policy debates occurring today come under the rubric of one of these themes. Indeed, it is often a fruitful heuristic to use current events to illustrate the force of the key themes and arguments that are presented throughout the text.