Contents

1. Introduction 1

Why Study International Economics? Objectives of Study of the Text. Some Notes on Methodology. Summary and Conclusions.

part one
THE PURE THEORY OF INTERNATIONAL TRADE

2. Gains from Trade in a Classical World 11

Absolute and Comparative Advantage. The Gains from Trade: Geometric Analysis. The Small-Country Case.

3. The Modern Theory of International Trade 24

I. PRODUCTION: The Edgeworth Box Diagram. The Production Frontier. Summary and Conclusions. II. THE COMMUNITY INDIFFERENCE CURVE: A Community Indifference Curve. Summary and Conclusions. III. THE GAINS FROM TRADE: The Case for Free Trade. IV. GENERAL EQUILIBRIUM: OFFER CURVES: The Trade Indifference Curve and Map. The Offer Curve. *Equilibrium Conditions.* V. FACTOR PRICE EQUALIZATION: Relative Factor Prices. Real-World Factor Price Equilization. APPENDIX: Proof of Production Frontier Curvature. Alternative Method for Proving Factor Price Equalization Theorem and the Stolper-Samuelson Theorem. Proof of Absolute Factor Price Equilization.

4. Empirical Tests and Extensions of the Heckscher-Ohlin Model 60

I. EMPIRICAL TESTS OF INTERNATIONAL TRADE THEORY: Studies of the Ricardian Model. Studies of the Heckscher-Ohlin Model. Summary and Conclusions. II. THE LEONTIEF PARADOX AND EXTENSIONS OF THE HECKSCHER-OHLIN MODEL: Taste Conditions. U.S. Tariff Structure. Natural Resources. Factor Intensity Reversals. Identical Production Functions. Summary and Conclusions. III. INTRAINDUSTRY TRADE AND EXTENSIONS OF THE HECKSCHER-OHLIN MODEL: Functionally Homogeneous

Products. Differentiated Products: Scale Economies. Differentiated Products: Product Cycles. Labor Value-Added Processes. Summary and Conclusions.

5. Economic Growth and International Trade **90**

I. GROWTH AND WELFARE IN THE HECKSCHER-OHLIN MODEL: Factor Growth in a Small Country. Large Countries and Growth. Growth in Knowledge Capital. II. INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT: The Classical Arguments. The Case for Foreign Trade Restrictions. Evaluation of Arguments against Trade. Evaluation of Import Substitution Policies.

6. Some Data on the Importance and Growth of World Trade **120**

I. THE NATURE AND SOURCES OF DATA. II. THE GROWTH AND COMPOSITION OF TRADE: Growth by Countries. Composition by Commodities. Matrix of World Trade. Summary and Conclusions.

part two
COMMERCIAL POLICIES

7. The Nature and Effects of Protection **135**

I. GENERAL EQUILIBRIUM EFFECTS OF A TARIFF IN A SMALL COUNTRY. II. GENERAL EQUILIBRIUM EFFECTS OF A TARIFF IN A LARGE COUNTRY. III. PARTIAL EQUILIBRIUM EFFECTS OF A TARIFF. IV. THE THEORY OF TARIFF STRUCTURE. V. ON THE EQUIVALENCE OF TARIFFS AND OTHER TRADE BARRIERS: Quotas. Subsidies. Multiple Exchange Rates. Miscellaneous Nontariff Barriers. Summary and Conclusions. APPENDIX: A Complete General Equilibrium Model of a Tariff.

8. Reasons for Tariff Protection **155**

I. THE OPTIMUM TARIFF: Optimum Tariff and Retaliation. Optimum Export Tax. II. TARIFFS TO CORRECT MARKET FAILURES: Infant-Industry Argument. Labor-Surplus Economy. Externalities. III. SOCIAL WELFARE FUNCTION: Income Redistribution. Revenue Tariffs. Industry as a Consumption Good. IV. ECONOMIC INSTABILITY. V. THE ARGUMENT FOR THE COMBINED USE OF TARIFFS AND SUBSIDIES. VI. SUMMARY AND CONCLUSIONS. APPENDIX: Optimum Tariff Formula Derived. On the Equivalence of Export and Import Tariffs. The Metzler Case.

9. The History, Future, and Cost of Protection **182**

I. A SKETCH OF HISTORIC TRENDS. II. CONTINUING ISSUES IN TRADE LIBERALIZATION: Discrimination against Developing Countries. Regional Trade Associations. Agriculture. Miscellaneous Issues. III. THE COST OF PROTECTION AND ARGUMENTS AGAINST UNILATERAL FREE TRADE

POLICIES: The Cost of Protection. Why Not Unilateral Free Trade Policies? Summary and Conclusions.

part three
FOREIGN EXCHANGE MARKETS AND BALANCE-OF-PAYMENTS STATISTICS

10. The Foreign Exchange Markets **201**

Some Foreign Exchange Market Customs. The Organization of the Market. Futures and Forward Markets. The Market for Bank Notes. Some Effects of an Efficient Foreign Exchange Market. Arbitrage.

11. The Determinants of the Spot Exchange Rate **215**

I. TRADE IN GOODS: Theoretical Model. II. CAPITAL FLOWS, SPECULATION, AND GOVERNMENT: Capital Flows. Speculation. Government. III. PURCHASING-POWER PARITY. APPENDIX: Algebraic Model of the Foreign Exchange Market.

12. The Forward Exchange and Eurocurrency Markets **247**

I. THE FORWARD EXCHANGE MARKET: Interest Arbitragers. Interest Parity Theory. Geometric Model. Speculators, Traders, and Hedgers. Market Equilibrium. Expected Dollar Devaluation. Summary and Conclusions. II. THE EUROCURRENCY MARKETS: Multiple Expansion. Some Data. Causes of the Eurodollar Market Development. Economic Effects of Eurocurrency Markets. Summary and Conclusions.

13. Balance-of-Payments Statistics and Postwar History **275**

I. THE NATURE, COLLECTION, AND PRESENTATION OF STATISTICS: Some Accounting Principles. Individual Accounts and Balances. Different Balances for Analysis. Problems of Balance-of-Payments Analysis. II. BALANCE OF PAYMENTS OF THE UNITED KINGDOM, THE UNITED STATES, CANADA, AND GERMANY: The United Kingdom. The United States. Canada. Germany. Summary and Conclusions.

part four
THE INTERNATIONAL ADJUSTMENT MECHANISM

14. Overview of Adjustment Problems and International Monetary Systems and an Analysis of Adjustment through Exchange Rate Changes **303**

I. METHODS AND SYSTEMS FOR DEALING WITH PAYMENTS IMBAL-

ANCES. II. EXCHANGE RATE ADJUSTMENT AND POSSIBLE PROBLEMS: Derivation of Demand and Supply Schedules. The Marshall-Lerner Condition. III. ELASTICITIES IN THE REAL WORLD: Econometric and Data Problems. Neglect of Other Conditions. Change of Elasticities through Time. Summary and Conclusions for Sections II and III. APPENDIX: The Marshall-Lerner Condition.

15. Direct Controls on International Trade 326

I. THE CASE FOR AND AGAINST DIRECT CONTROLS. II. METHODS OF CONTROL: Exchange Controls: Trade Licensing and Multiple Exchange Rates. Payments Agreements. Tariffs and Subsidies. Quantitative Restrictions: Embargoes and Quotas. Summary and Conclusions.

16. Income Effects Combined with Exchange Rate Changes for Internal and External Balance 336

I. A SIMPLE MODEL OF INCOME DETERMINATION: Numerical Example. Geometric Representation. II. THE PROBLEM OF INTERNAL AND EXTERNAL BALANCE: Case 1. Case 2. The Role of Money. The Phillips Curve Modification. The Swan Diagram.

17. Adjustment with Money, Short-Term Capital Flows, and Speculation 358

I. THE ROLE OF SHORT-TERM CAPITAL FLOWS IN ADJUSTMENT: Fixed Exchange Rate Case. Freely Floating Rates Case. II. SHORT-TERM CAPITAL FLOWS IN MANAGED ECONOMIES: Speculation. III. METHODS FOR DEALING WITH UNDESIRED SHORT-TERM CAPITAL FLOWS: Foreign Exchange Control. Controls over Rates of Return. Forward Exchange Policy. International Cooperation.

18. Internal and External Balance through the Mix of Monetary and Fiscal Policy 369

I. UNDERSTANDING THE *LM-IS-FE* MODEL. II. AUTOMATIC ADJUSTMENT MECHANISMS. III. MONETARY AND FISCAL POLICY WITH FIXED EXCHANGE RATES. IV. PROBLEMS OF THE SMALL COUNTRY: Fixed Exchange Rates Case. Freely Floating Rates Case. V. CRITICISMS OF THE MONETARY-FISCAL POLICY MIX MODELS. APPENDIX: Derivation of the *LM*, *IS*, and *FE* Curves.

19. The Monetarist Approach to Balance-of-Payments Adjustment 391

I. MONETARIST CRITIQUE OF THE KEYNESIAN CLOSED-ECONOMY MODEL: Extreme Monetarist Critique of Keynesian Stabilization Policies. Moderate Monetarist Critique of the Phillips Curve Tradeoff. II. INTERNATIONAL MONETARIST VIEWS: Balance-of-Payments Effects of Stabilization Policies.

Fiscal Policy and Temporary Payments Imbalances. Monetary Policy and Permanent Payments Imbalances. Reserve Currency Country under Managed Exchange Rates. Some Casual Empirical Support of the Monetarist Views. III. OTHER MONETARIST ANALYTICAL APPROACHES: Perfect Competition in Goods Markets. Perfect International Short-Term Capital Markets. Stock-Flow Relationships. IV. SUMMARY AND CONCLUSIONS.

20. An Integrated View of the Adjustment Mechanism **410**

I. THE NATURE OF BALANCE-OF-PAYMENT DISEQUILIBRIA: A Random-Walk Model of Payments Imbalances. II. AN OVERVIEW OF THE MODERN THEORY OF THE ADJUSTMENT MECHANISM.

part five
THE INTERNATIONAL MONETARY SYSTEM

21. The Gold Standard **425**

I. THE BASIC MODEL. II. THE MODEL AND THE REAL WORLD. III. HISTORY OF THE GOLD STANDARD.

22. Freely Floating Exchange Rates **438**

I. THE BASIC MODEL. II. POLITICAL ARGUMENTS AGAINST FREELY FLOATING RATES EVALUATED: A. The Anchor Argument. B. The Internationalist Argument. III. MARKET IMPERFECTIONS AS ARGUMENTS AGAINST FREELY FLOATING RATES EVALUATED: A. Elasticity Pessimism. B. Destabilizing Speculation. C. Costs of Transition Period. IV. MARKET FAILURES: THE OPTIMUM CURRENCY AREA ARGUMENTS: Real Income. Stability of Income. Independent Targets. Summary and Conclusions. V. THE CASE FOR OPTIMUM EXCHANGE RATE STABILITY: Optimal Reserves and Flexibility. Assumed Government Wisdom. The Coase Theorem.

23. The Gold Exchange Standard **462**

I. THE THEORETICAL BLUEPRINT. II. HISTORY OF THE SYSTEM. III. THE SHORTCOMINGS OF THE GOLD EXCHANGE STANDARD. IV. PROPOSALS FOR REFORM OF THE GOLD EXCHANGE STANDARD. V. THE FUTURE ROLE OF THE DOLLAR: Economies versus Government Policy. Likely Future Rival Currencies. Effects on U.S. Welfare.

24. An International Monetary System Based on Centrally Created Reserves **485**

I. A HISTORY OF THE EARLY IMF. II. THE NATURE OF SPECIAL DRAWING RIGHTS: The Value of SDRs. III. WHAT TO DO WITH SOCIAL SAVINGS FROM CENTRALLY CREATED RESERVES: Central Government Method.

Free Market Method. Transactions Demand Method. IV. THE OPTIMUM QUANTITY AND COST OF INTERNATIONAL RESERVES. V. MISCELLANEOUS PROBLEMS OF INTERNATIONAL MONETARY ORGANIZATION: The Role of Monetary Gold. Control over the Adjustment Mechanism. The Problem of an Intervention Currency and the Future Role of the Dollar.

part six
INTERNATIONAL FACTOR MOVEMENTS AND THE ECONOMICS OF INTEGRATION

25. International Factor Movements: Motives and Welfare Effects **521**

I. SOME FACTS ON CAPITAL FLOWS. II. MOTIVES FOR CAPITAL MOVEMENTS: Rates of Return. Risk Diversification. III. WELFARE EFFECTS OF CAPITAL FLOWS: Relaxing Some Assumptions.

26. Some Special Problems Raised by International Factor Movements **554**

I. THE PROBLEMS CAUSED BY MULTINATIONAL ENTERPRISES: Losses of National Sovereignty. Externalities Due to Market Failures. Income Distribution Effects. Methods of Control. Summary and Conclusions. II. THE BALANCE-OF-PAYMENTS EFFECTS OF DIRECT FOREIGN INVESTMENT. III. THE TRANSFER PROBLEM: Transfer and the Adjustment Mechanism. Terms-of-Trade Effects Due to Demand Patterns. Summary and Conclusions. IV. MIGRATION OF LABOR AND HUMAN CAPITAL: Motives. Welfare Effects. Summary and Conclusions.

27. Customs Unions and Monetary Integration **582**

Some Preliminary Definitions. Degrees of Coordination. I. CUSTOMS UNION THEORY: Comparative Static Analysis. Dynamic and Other Effects of Integration. II. THE PROBLEMS OF FISCAL AND MONETARY INTEGRATION: Fiscal Integration. Monetary Integration. The Theory of the Costs of Monetary Union.

Bibliography **625**

Index of Names and Authors **645**

Subject Index **649**