

CONTENTS

PREFACE	XV
CHAPTER 1 INTRODUCTION	1
1.1 THE SUBJECT OF INTERNATIONAL ECONOMICS	2
1.2 PATTERNS OF INTERNATIONAL TRADE	5
1.3 THE ORGANIZATION OF THIS BOOK	8
PART I THE BASIC MODEL OF INTERNATIONAL TRADE	11
CHAPTER 2 COMMODITY TRADE	13
2.1 THE GAINS FROM TRADE	14
2.2 FREE-TRADE EQUILIBRIUM	20
2.3 PRODUCT VARIETY AND INTRA-INDUSTRY TRADE	22
2.4 ARGUMENTS ABOUT FREE TRADE	23
2.5 SUMMARY	26
CHAPTER PROBLEMS	27
SUGGESTIONS FOR FURTHER READING	27
APPENDIX: THE BOX DIAGRAM AND THE CONTRACT CURVE	28
CHAPTER 3 EXPANDED GAINS FROM TRADE WITH RESOURCE MOVEMENTS	31
3.1 THE PRODUCTION POSSIBILITIES SCHEDULE AND AUTARKY EQUILIBRIUM	31
3.2 TRADE AND COMPARATIVE ADVANTAGE	34
3.3 SCALE ECONOMIES AND WORLD TRADE	38
3.4 SOURCES OF GAINS FROM TRADE: A RECAPITULATION	39
3.5 FREE TRADE AND THE BEHAVIOR OF IMPORT DEMAND	42
3.6 SUMMARY	44
CHAPTER PROBLEMS	45
SUGGESTIONS FOR FURTHER READING	46
APPENDIX A: CONSTANT RETURNS TO SCALE AND INCREASING OPPORTUNITY COSTS	46
APPENDIX B: THE OFFER CURVE DIAGRAM	47

CHAPTER 4	APPLICATIONS AND INTERPRETATIONS	49
4.1	DISTURBANCES FROM ABROAD AND THE TERMS OF TRADE	49
4.2	PROTECTING IMPORT-COMPETING GOODS	51
4.3	GROWTH AND TRADE	53
4.4	THE TRANSFER PROBLEM	55
4.5	WIDER INTERPRETATIONS OF THE BASIC TRADE MODEL	58
4.6	TRADE AND MARKET STRUCTURE	62
4.7	SUMMARY	63
	CHAPTER PROBLEMS	64
	SUGGESTIONS FOR FURTHER READING	65
	APPENDIX: THE STABILITY ISSUE	65
PART II	TRADE PATTERNS, INCOME DISTRIBUTION, AND GROWTH	69
CHAPTER 5	TECHNOLOGY AND PRODUCTIVITY: THE RICARDIAN TRADE MODEL	71
5.1	BEFORE INTERNATIONAL TRADE	71
5.2	INTERNATIONAL TRADE: THE ROLE OF COMPARATIVE COSTS	73
5.3	FREE-TRADE EQUILIBRIUM	75
5.4	INTERNATIONAL WAGE COMPARISONS AND PRODUCTIVITIES	78
5.5	MANY COMMODITIES AND MANY COUNTRIES	81
5.6	GLOBALIZATION: PRODUCTIVITY SHOCKS AND TECHNOLOGICAL SPILLOVERS	83
5.7	NON-TRADED COMMODITIES	84
5.8	SUMMARY	86
	CHAPTER PROBLEMS	87
	SUGGESTIONS FOR FURTHER READING	89
	APPENDIX: TRANSITIONAL UNEMPLOYMENT	89
CHAPTER 6	TRADE AND LOCAL INCOME DISTRIBUTION: THE SPECIFIC FACTORS MODEL	91
6.1	DIMINISHING RETURNS AND FACTOR HIRES	91
6.2	OUTPUTS AND INCOME DISTRIBUTION: THE CLOSED ECONOMY	92
6.3	THE DISTRIBUTION OF INCOME WITH FREE TRADE	93
6.4	GROWTH IN FACTOR ENDOWMENTS	95
6.5	POLITICAL ECONOMY ASPECTS	97
6.6	THE PATTERN OF TRADE	98
6.7	ALTERNATIVE INTERPRETATIONS: SPECIFIC CAPITAL OR LABOR	99

6.8	THE DUTCH DISEASE	100
6.9	SUMMARY	102
	CHAPTER PROBLEMS	104
	SUGGESTIONS FOR FURTHER READING	104
	APPENDIX: THE TRANSFORMATION SCHEDULE	105
CHAPTER 7	FACTOR ENDOWMENTS AND TRADE: THE 2×2 HECKSCHER-OHLIN MODEL	107
7.1	THE CASE OF RIGID TECHNOLOGY	108
7.2	FLEXIBLE TECHNOLOGY AND AUTARKY COMPARISONS	111
7.3	THE PATTERN OF TRADE AND THE DISTRIBUTION OF INCOME	114
7.4	THE HECKSCHER-OHLIN THEOREM AND EMPIRICAL TRADE PATTERNS	117
7.5	SUMMARY	121
	CHAPTER PROBLEMS	122
	SUGGESTIONS FOR FURTHER READING	123
	APPENDIX A: THE PRODUCTION BOX	124
	APPENDIX B: PRODUCTION STRUCTURES IN TRADE: A REVIEW	125
CHAPTER 8	TRADE, GROWTH, AND PRODUCT VARIETY	129
8.1	TRADE PATTERNS: WHAT TO PRODUCE	129
8.2	CONCENTRATION IN PRODUCTION	134
8.3	ECONOMIC GROWTH AND CHANGING COMPARATIVE ADVANTAGE	136
8.4	PREVALENCE OF INTRA-INDUSTRY TRADE	137
8.5	PRODUCT VARIETY AND INTRA-INDUSTRY TRADE	137
8.6	SUMMARY	143
	CHAPTER PROBLEMS	144
	SUGGESTIONS FOR FURTHER READING	145
CHAPTER 9	TRADE IN INTERMEDIATE GOODS AND FACTORS OF PRODUCTION	147
9.1	FIXED RESOURCES AND FOOTLOOSE PRODUCTION PROCESSES	147
9.2	FOOTLOOSE INPUTS: THE JOINT ROLE OF COMPARATIVE AND ABSOLUTE ADVANTAGE	153
9.3	FACTOR MOVEMENTS, EFFICIENCY, AND WELFARE	157
9.4	INTERNATIONAL CAPITAL MOVEMENTS: SELECTED ISSUES	160
9.5	MULTATIONALS AND FOREIGN DIRECT INVESTMENT	163
9.6	SUMMARY	169
	CHAPTER PROBLEMS	171
	SUGGESTIONS FOR FURTHER READING	172

PART III THE THEORY AND PRACTICE OF COMMERCIAL POLICY 173

CHAPTER 10	PROTECTION AND THE NATIONAL WELFARE	175
10.1	THE TARIFF IN A SMALL COUNTRY	175
10.2	THE TARIFF IN A LARGE COUNTRY	183
10.3	TARIFFS AND DOMESTIC WELFARE	184
10.4	TARIFFS AND WORLD WELFARE	185
10.5	SUMMARY	186
	CHAPTER PROBLEMS	187
	SUGGESTIONS FOR FURTHER READING	188
	APPENDIX: TARIFFS AND THE OFFER CURVE	188
CHAPTER 11	THE POLITICAL ECONOMY OF PROTECTION	193
11.1	THE TARIFF AS A DEVICE FOR RAISING REVENUE	193
11.2	THE TARIFF AS A SECOND-BEST DEVICE	195
11.3	TARIFFS, THE DISTRIBUTION OF INCOME, AND RENT-SEEKING ACTIVITIES	198
11.4	GROWTH, PROTECTION, AND WELFARE	203
11.5	PROTECTION AND UNEMPLOYMENT	205
11.6	SUMMARY	206
	CHAPTER PROBLEMS	207
	SUGGESTIONS FOR FURTHER READING	207
CHAPTER 12	TRADE POLICY AND IMPERFECT COMPETITION	209
12.1	MONOPOLY AND THE GAINS FROM TRADE	209
12.2	CARTELS AND THE INTERESTS OF PRODUCING AND CONSUMING COUNTRIES	213
12.3	MONOPOLY AND POLICIES OF EXPORTING AND IMPORTING COUNTRIES	216
12.4	INDUSTRIAL POLICY AND MARKET RIVALRY	223
12.5	SUMMARY	228
	CHAPTER PROBLEMS	230
	SUGGESTIONS FOR FURTHER READING	231
	APPENDIX: INTERNATIONAL DUOPOLY AND NATIONAL STRATEGY	231
CHAPTER 13	TRADE CONTROLS IN PRACTICE	235
13.1	TARIFFS: LEVELS AND TRENDS	235
13.2	MULTILATERAL TARIFF REDUCTION	237
13.3	THE TREND TOWARD "MANAGED" TRADE	240

13.4	SUMMARY	250
	CHAPTER PROBLEMS	251
	SUGGESTIONS FOR FURTHER READING	251
CHAPTER 14	PREFERENTIAL ARRANGEMENTS AND REGIONAL ISSUES IN TRADE POLICY	253
14.1	REGIONAL PREFERENCES AND REGIONAL TRADE	253
14.2	WELFARE EFFECTS OF TRADE PREFERENCES	254
14.3	PREFERENTIAL ARRANGEMENTS IN PRACTICE	259
14.4	TRADE PROBLEMS OF THE ECONOMIES IN TRANSITION	264
14.5	TRADE AND GROWTH: THE ASIAN NICs	268
14.6	PREFERENTIAL ARRANGEMENTS: NEW POLICY ISSUES	273
14.7	SUMMARY	275
	CHAPTER PROBLEMS	277
	SUGGESTIONS FOR FURTHER READING	278
PART IV	MONEY, INCOME, AND THE BALANCE OF PAYMENTS	279
CHAPTER 15	THE BALANCE OF PAYMENTS ACCOUNTS	281
15.1	BREAKDOWN OF THE ACCOUNTS	283
15.2	HOW INDIVIDUAL TRANSACTIONS ARE RECORDED	286
15.3	DOUBLE-ENTRY BOOKKEEPING	288
15.4	THE BALANCES	290
15.5	STATISTICAL ERRORS IN THE PAYMENTS ACCOUNTS	295
15.6	SUMMARY	297
	CHAPTER PROBLEMS	297
CHAPTER 16	THE FOREIGN EXCHANGE MARKET AND TRADE ELASTICITIES	299
16.1	THE FLOW OF SUPPLY AND DEMAND FOR FOREIGN EXCHANGE	299
16.2	EMPIRICAL EFFECTS OF DEVALUATION ON THE TRADE BALANCE	305
16.3	SUMMARY	308
	CHAPTER PROBLEMS	309
	SUGGESTIONS FOR FURTHER READING	312
	APPENDIX: STABILITY OF THE FOREIGN EXCHANGE MARKET	312

CHAPTER 17	NATIONAL INCOME AND THE TRADE BALANCE	315
17.1	THE SMALL-COUNTRY KEYNESIAN MODEL	315
17.2	THE NATIONAL SAVING-INVESTMENT IDENTITY	318
17.3	MULTIPLIERS	319
17.4	THE TRANSFER PROBLEM	322
17.5	THE TWO-COUNTRY KEYNESIAN MODEL FOR A LARGE COUNTRY	324
17.6	SUMMARY	330
	CHAPTER PROBLEMS	331
	SUGGESTIONS FOR FURTHER READING	333
CHAPTER 18	SPENDING AND THE EXCHANGE RATE IN THE KEYNESIAN MODEL	335
18.1	TRANSMISSION OF DISTURBANCES	335
18.2	EXPENDITURE-SWITCHING AND EXPENDITURE-REDUCING POLICIES	338
18.3	MONETARY FACTORS	345
18.4	SUMMARY	352
	CHAPTER PROBLEMS	352
	SUGGESTIONS FOR FURTHER READING	355
	APPENDIX A: THE LAURSEN-METZLER-HARBERGER EFFECT	355
	APPENDIX B: THE ASSIGNMENT PROBLEM	360
CHAPTER 19	THE MONEY SUPPLY, THE PRICE LEVEL, AND THE BALANCE OF PAYMENTS	363
19.1	THE NONSTERILIZATION ASSUMPTION	363
19.2	THE PURCHASING POWER PARITY ASSUMPTION	368
19.3	PURCHASING POWER PARITY IN A HYPERINFLATION	380
19.4	THE MONETARIST MODEL OF THE BALANCE OF PAYMENTS	383
19.5	SUMMARY	390
	CHAPTER PROBLEMS	391
	SUGGESTIONS FOR FURTHER READING	393
	APPENDIX A: THE GOLD STANDARD	393
	APPENDIX B: RESERVE FLOWS AFTER SPENDING INCREASE AND DEVALUATION	397
CHAPTER 20	DEVELOPING COUNTRIES AND OTHER SMALL OPEN ECONOMIES WITH NON-TRADED GOODS	401
20.1	NON-TRADED GOODS	402
20.2	EXPENDITURE AND THE RELATIVE PRICE OF NON-TRADED GOODS	405
20.3	THE MONETARY APPROACH WITH NON-TRADED GOODS	411

- 20.4 SUMMARY 417
- CHAPTER PROBLEMS 418
- SUGGESTIONS FOR FURTHER READING 419

PART V INTERNATIONAL FINANCIAL MARKETS AND THEIR MACROECONOMIC IMPLICATIONS 421

- CHAPTER 21 THE GLOBALIZATION
OF FINANCIAL MARKETS 423**
 - 21.1 THE EUROMARKETS 424
 - 21.2 THE FOREIGN EXCHANGE MARKET 426
 - 21.3 LIBERALIZATION 432
 - 21.4 INNOVATION 440
 - 21.5 SUMMARY 449
 - CHAPTER PROBLEMS 449
 - SUGGESTIONS FOR FURTHER READING 450
 - APPENDIX: THE THEORY OF INTERNATIONAL CAPITAL FLOWS 450

- CHAPTER 22 THE MUNDELL-FLEMING MODEL WITH PARTIAL INTERNATIONAL
CAPITAL MOBILITY 457**
 - 22.1 THE MODEL 459
 - 22.2 FISCAL POLICY AND THE DEGREE OF CAPITAL
MOBILITY UNDER FIXED RATES 462
 - 22.3 MONETARY POLICY AND THE DEGREE OF CAPITAL
MOBILITY UNDER FIXED RATES 464
 - 22.4 WHEN MONEY FLOWS ARE NOT STERILIZED 466
 - 22.5 OTHER AUTOMATIC MECHANISMS OF ADJUSTMENT 468
 - 22.6 THE PURSUIT OF INTERNAL AND EXTERNAL BALANCE 469
 - 22.7 SUMMARY 472
 - CHAPTER PROBLEMS 473
 - SUGGESTIONS FOR FURTHER READING 473
 - APPENDIX: ZONES OF INTERNAL AND EXTERNAL BALANCE 473

- CHAPTER 23 FISCAL AND MONETARY POLICY UNDER MODERN FINANCIAL
MARKET CONDITIONS 479**
 - 23.1 FISCAL POLICY UNDER FLOATING: AN EFFECT MITIGATED
BY CAPITAL MOBILITY 480
 - 23.2 MONETARY POLICY UNDER FLOATING: AN EFFECT ENHANCED
BY CAPITAL MOBILITY 486

23.3	POLICY UNDER PERFECT CAPITAL MOBILITY	489
23.4	SUMMARY	498
	CHAPTER PROBLEMS	499
	SUGGESTIONS FOR FURTHER READING	500
CHAPTER 24	CRISES IN EMERGING MARKETS	501
24.1	INFLOWS TO EMERGING MARKETS	501
24.2	MANAGING OUTFLOWS	508
24.3	SPECULATIVE ATTACKS	509
24.4	CONTAGION	515
24.5	IMF COUNTRY PROGRAMS	517
24.6	CONTRACTIONARY EFFECTS OF DEVALUATION	520
24.7	CAPITAL CONTROLS	526
24.8	REFORM OF INTERNATIONAL FINANCIAL ARCHITECTURE	529
24.9	SUMMARY	532
	SUGGESTIONS FOR FURTHER READING	532
CHAPTER 25	INTERDEPENDENCE AND POLICY COORDINATION	535
25.1	INTERNATIONAL TRANSMISSION OF DISTURBANCES UNDER FLOATING EXCHANGE RATES	535
25.2	ECONOMETRIC MODELS OF THE INTERDEPENDENT WORLD ECONOMY	540
25.3	INTERNATIONAL MACROECONOMIC POLICY COORDINATION	545
25.4	SUMMARY	550
	CHAPTER PROBLEMS	550
	SUGGESTIONS FOR FURTHER READING	551
CHAPTER 26	SUPPLY AND INFLATION	553
26.1	THE AGGREGATE SUPPLY RELATIONSHIP	553
26.2	SUPPLY RELATIONSHIP WITH INDEXED WAGES	561
26.3	INFLATION	564
26.4	ALTERNATIVE ANCHORS FOR A COUNTRY'S MONEY	566
26.5	THE CHOICE OF EXCHANGE RATE REGIME	569
26.6	SUMMARY	576
	CHAPTER PROBLEMS	577
	SUGGESTIONS FOR FURTHER READING	578

PART VI THE DETERMINATION OF EXCHANGE RATES IN INTERNATIONAL ASSET MARKETS 579

CHAPTER 27	EXPECTATIONS, MONEY, AND THE DETERMINATION OF THE EXCHANGE RATE	581
27.1	INTEREST RATE PARITY CONDITIONS	581
27.2	THE MONETARIST MODEL OF EXCHANGE RATES, WITH FLEXIBLE PRICES	583
27.3	TWO EXAMPLES OF THE IMPORTANCE OF EXPECTATIONS	593
27.4	OVERSHOOTING AND THE REAL EXCHANGE RATE	597
27.5	TWO MORE EXAMPLES OF THE IMPORTANCE OF EXPECTATIONS	609
27.6	SUMMARY	613
	CHAPTER PROBLEMS	614
	SUGGESTIONS FOR FURTHER READING	615
CHAPTER 28	EXCHANGE RATE FORECASTING AND RISK	617
28.1	FORECASTING THE SPOT EXCHANGE RATE	617
28.2	THE ROLE OF EXCHANGE RISK	623
28.3	PORTFOLIO BALANCE EFFECTS ON THE EXCHANGE RATE	627
28.4	SUMMARY	632
	CHAPTER PROBLEMS	632
	SUGGESTIONS FOR FURTHER READING	634
SUPPLEMENTS FOR SELECTED CHAPTERS	S-I	
	SUPPLEMENT TO CHAPTER 2:	S-3
	The Equations of Exchange Equilibrium	
	SUPPLEMENT TO CHAPTER 3:	S-4
	Real Incomes, Production, Elasticities, and the Trade Pattern	
	SUPPLEMENT TO CHAPTER 4:	S-10
	Stability and Comparative Statics in the Basic Trade Model	
	SUPPLEMENT TO CHAPTER 6:	S-17
	The Specific-Factors Model of Production	
	SUPPLEMENT TO CHAPTER 7:	S-23
	The Two-Sector Heckscher-Ohlin Model	

SUPPLEMENT TO CHAPTER 10:	S-28
Real Incomes, Prices, and the Tariff	
SUPPLEMENT TO CHAPTER 11:	S-33
Tariffs, Growth, and Welfare	
SUPPLEMENT TO CHAPTER 12:	S-40
Imperfect Competition, Trade Restrictions, and Welfare	
SUPPLEMENT TO CHAPTER 16:	S-44
Import and Export Elasticities	
SUPPLEMENT TO CHAPTER 19:	S-44
The Monetarist Two-Country Model of the Balance of Payments	
SUPPLEMENT TO CHAPTER 25:	S-48
The Locomotive Theory	
SUPPLEMENT TO CHAPTER 26:	S-51
Real Wage Indexation	
SUPPLEMENT TO CHAPTER 27:	S-52
The Monetary Model of the Exchange Rate	
SUPPLEMENT TO CHAPTER 28:	S-56
The Optimally Diversified Portfolio	