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Sjoerd Beugelsdijk is Professor of International Business and Management at the University of Groningen.

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Charles Van Marrewijk is Professor of International Macroeconomics at Utrecht University.
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holistic view of place, space and organization. This new second edition of *International Economics and Business* by Beugelsdijk, Brakman, Garretsen and van Marrewijk does precisely that. It will serve as a valuable resource to educate the new generation of managers and policymakers that must function in the new environment of rising complexity.

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**Alain Verbeke, Haskayne School of Business, University of Calgary and Solvay Business School, University of Brussels**
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International Economics and Business offers an integrated perspective on the (changing) role of nations and firms in the global economy. It is partially based on an earlier book published by Cambridge University Press in 2006, written by three of the present four authors (in conjunction with Arjen van Witteloostuijn) and entitled Nations and Firms in the Global Economy. Although the basic idea has remained the same, the underlying philosophy and overall organization of this book are more explicit and pronounced. We discuss aspects of the global economy typically found in international economics and in international business. The book is targeted at first- or second-year undergraduate students, and we have written the book in such a way that students familiar with basic calculus and mathematics are able to understand the material we present. In terms of a typical economics or business curriculum, this means that you have probably had introductory courses on statistics and microeconomics. If you are a student enrolled in an economics programme, this book serves as an introduction to international economics, including a discussion on the most essential theories of international business. If you are a student following a business programme, this book serves as an introduction to international business, including a discussion of the essentials of international economics. Having successfully mastered the material we present to you in this book, an economics student may subsequently follow an intermediate international economics course, while a business student may continue by taking an intermediate international strategy course. We provide common ground for both undergraduate communities.

Teaching philosophy

This book is based on a teaching philosophy developed in approximately 80 years of cumulative teaching experience in international economics and international business, including a substantial number of years in undergraduate programmes. Over the years we have become more and more convinced of the need to focus on the explanation of the big picture in international economics and business. Sure, you need to learn about intricate details of balance of payments, internationalization process models, and exchange rate developments, to mention just a few aspects, but in the end the added value of a course on international economics and business is the ability to link the different concepts and understand the relationships that allow you to ‘get the big picture’. From the start of this project, our goal has been to provide this picture. Moreover, instead of providing just another introduction on international economics or on international business as separate topics, we explicitly integrate these two fields of inquiry (more on that below). Whilst writing and developing our
book, we followed two educational principles (see below). The first principle is taken from Ed Leamer (2009), an econometrics professor at the University of California in Los Angeles. The second principle cannot be attributed to anyone in particular, although Nobel laureate George Stigler is sometimes mentioned.

1. People are pattern-seeking story-telling animals.
2. The plural of anecdote is not evidence.

The first principle relates to the need for human beings to structure the world around them in order to understand it. This is exactly what we offer you in this book; we structure the world of international economics and business in such a way that it helps you to understand the contemporary global economy. Patterns have a history, however, which means that in order to understand the contemporary global economy you need to have some historical knowledge because patterns in the social sciences tend to be path-dependent. The position of nations and firms today (at time $t$) is related to their position yesterday (at time $t-1$). Throughout this book, we therefore discuss the relevant historical background when necessary. We use a variety of instruments to clarify. First, we introduce a decision tree in the next section for a firm that considers going abroad and describe the different options this firm has. This decision tree is used in Chapter 2 when discussing types of multinational activity, in Chapter 6 when discussing the central role of distance in international economics and business, and again in Chapter 8 when explaining the role of exchange rates. Using the same instrument at these occasions supports the integration and discovery process, and facilitates the learning process. Second, whereas international economics books tend to focus on nations and international business books on firms, we combine the two in one consistent framework. We do so by taking a bottom-up perspective in which trade and investment patterns emerge as firms make internationalization decisions that are driven by their wish to generate value added abroad, subsequently affecting home and host countries. This perspective is also reflected in the decision tree used throughout.

The second principle implies that our book is research driven. It is not a collection of anecdotes, but based on research in international economics and international business. What we present to you is not just a set of examples, but the combination of relevant insights and theories based on and derived from fundamental research. We think that cases and examples are helpful, but that they should not be the starting point for getting the big picture. For that reason, we start from theory and use case insights as complementary pieces of information, thus balancing analytical reasoning and discussions on data and numbers. Related issues are discussed in additional boxes.

**Organization**

To discuss international economics and international business in an integrated way, we use a decision tree as our starting point (see Figure 0.1). It depicts a set of choices for a firm considering going abroad, usually driven by the wish to generate additional value added. Even if a firm goes abroad for strategic reasons, it still has to do so in the most
efficient and effective way. A firm may go abroad either to sell or to buy goods or services (see the first stage of the decision tree). If the firm decides to sell abroad it has two basic options, namely (i) to produce at home and export goods to serve the market in the other country or (ii) to start production in the host country and serve the foreign market from that production facility. In the second case, the firm becomes a (horizontal) multinational, that is, a firm which owns and controls activities in more than one country. If a firm decides to source from abroad there are also two options, namely (i) import from abroad or (ii) start local production in the host country and send these goods back to the home country for use in the local production process (intra-firm trade). In the second case the firm becomes again a (vertical) multinational. This summarizes the second stage of the decision tree in Figure 0.1, used throughout the book to discuss aspects of international economics and business.

The book is organized in four parts, largely in line with the flow through the firm’s decision tree illustrated in Figure 0.1, including the consequences for nations and firms.

- Part I: ‘Introduction’, consists of two chapters. Chapter 1 discusses the history and structure of the globalization process and introduces the global economy in terms of population, income, trade flows, and capital flows. Chapter 2 discusses the motivations for internationalization and the data that are used to measure the resulting flows of international business activity at the country level (the balance of payments).
- Part II: ‘Firms, trade, and location’, consists of five chapters in which we elaborate on the core of the decision tree that can be used to explain trade flows (Chapters 3–5) and multinational activity (Chapters 6 and 7). Chapter 3 focuses on comparative advantages through technology differences and factor abundance, leading to competitive advantages and outsourcing. Chapter 4 focuses on the role of heterogeneous firms in modern trade theory based on economies of scale, leading to intra-industry
Preface

trade, gains through love-of-variety and market size, and strategic advantages. Using the insights gained from Chapters 3 and 4, Chapter 5 then evaluates the effectiveness of trade restrictions and trade policy. The notion of firm heterogeneity is relevant when discussing multinational firms. Chapter 6 discusses how firms deal with all sorts of additional costs that they face when starting activities abroad, measured by geographic, cultural, institutional, and linguistic distance. Part II concludes in Chapter 7 with a discussion of how firms effectively and efficiently manage the firm-specific advantages they need to overcome the 'liability of foreignness' when going abroad.

- Part III: ‘Capital, currency, and crises’, also consists of five chapters. This part focuses on the financial dimension of international economics and business, consisting of problems that firms have to deal with in the core of the decision tree and the associated resulting consequences for trade- and capital flows that nations have to deal with. Chapter 8 discusses exchange rates and how to manage risks and uncertainty using forward markets, arbitrage, and interest rate parity. Chapter 9 focuses on currency crises and (the limitations of) exchange rate policy. Chapter 10 reviews the benefits of international capital mobility and discusses the problems of moral hazard, asymmetric information, and adverse selection. Chapter 11 brings together the issues discussed and learned in Part III in a consistent framework analysing financial crises and firms in the open economy. Chapter 12 concludes the financial part of our book by analysing in detail the causes and consequences of the current ‘Great Recession’ and putting this in a broader perspective.

- Part IV: ‘Consequences of globalization’, consists again of two chapters and brings together the most important implications of what we have learned in Parts II and III for the nations, firms, and people of the global economy. Chapter 13 focuses on the implications of globalization for economic growth by discussing the links between open economies and capital accumulation, technology, innovation, knowledge spillovers, and productivity. Chapter 14 concludes our book by reviewing the evidence on the links between globalization and inequality, including poverty, remittances, skill bias, the global income distribution, and the impact of outsourcing.

Supporting website

We have made supporting material available on the website associated with this book (www.cambridge.org/ieb). In line with our two educational principles, we provide review exercises and data exercises allowing students to familiarize themselves with the right numbers. We also make available all tables and colour versions of the figures used in the book. For instructors, we provide (PowerPoint) presentations of the chapters of the book and brief, indicative answers for the exercises.

Acknowledgements

Many people contributed to varying degrees at different stages while writing this book. Their useful comments, suggestions, hospitality, cooperation, and expertise are
highly appreciated, even if we were not always able to fully accommodate the suggestions (for example because of conflicting advice). These people include:

Antoon Spithoven, *Utrecht University*
Arjen van Witteloostuijn, *Tilburg University*
Avinash Dixit, *Princeton University*
Bart van Ark, *The Conference Board*
Chris Harrison, *Cambridge University Press*
Els Wester, *University of Groningen*
Gaaitzen de Vries, *University of Groningen*
Gene Grossman, *Princeton University*
Hans Groeneveld, *Rabo Bank*
Hans van Ees, *University of Groningen*
Henryk Kierzkowski, *Graduate Institute of International and Development Studies*
Ian McLean, *University of Adelaide*
Karl Farmer, *University of Graz*
Mariska van Dort, *Utrecht University*
Peter Kenen, *Princeton University*
Ralp de Haas, *European Bank for Reconstruction and Development*
Richard Gigengack, *University of Groningen*
Rob Bolder, *Utrecht University*
Rujie Wang, *University of Groningen*
Steven Poelhekke, *Free University Amsterdam*
Ton van Schaik, *Tilburg University*
Tristan Kohl, *University of Groningen*

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As already mentioned, we have a cumulated teaching experience of approximately 80 years. All of us have been teaching courses at undergraduate and graduate levels, at all major economics and business faculties in the Netherlands. All of us are active as researchers in the field of international economics and business and have numerous publications dealing with trade, investment, and globalization. Sjoerd Beugelsdijk is professor of international business and management at the University of Groningen, where he also serves as the academic director of the IB undergraduate programme. Steven Brakman is professor of international economics at the University of Groningen and academic director of the master programme in international economics and business. Harry Garretsen is professor of international economics and business at the University of Groningen, as well as dean of the faculty of economics and business. Finally, Charles van Marrewijk is professor of international macro-economics at Utrecht University and director of the Tjalling Charles Koopmans Institute.