

AN INTRODUCTION TO INTERNATIONAL ECONOMICS

New Perspectives on the World Economy

This book is designed for a one-semester or two-semester course in international economics, primarily targeting non-economics majors and programs in business, international relations, public policy, and development studies. It has been written to make international economics accessible to wide student and professional audiences. The book assumes a minimal background in microeconomics and mathematics and goes beyond the usual trade–finance dichotomy to give equal treatment to four “windows” on the world economy: international trade, international production, international finance, and international development. It takes a practitioner point of view rather than a standard academic view, introducing students to the material they need to become effective analysts in international economic policy. The website for the text is found at <http://iie.gmu.edu>.

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AN INTRODUCTION TO INTERNATIONAL ECONOMICS

**New Perspectives on
the World Economy**

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To Gelaye, Oda, and Ayantu

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Preface

I have written *An Introduction to International Economics: New Perspectives on the World Economy* for one- and two-semester courses in international economics, primarily targeting non-economics majors and programs in business, international relations, public policy, and development studies. The book assumes a *minimal* background in microeconomics, namely, familiarity with the supply and demand diagram and the production possibilities frontier diagram, along with basic algebra. It goes beyond the usual trade–finance dichotomy to give equal treatment to four “windows” on the world economy: international trade, international production, international finance, and international development. It also takes a practitioner point of view rather than a standard academic view. In one semester, there won’t be time to cover all the book’s chapters. In this case, the instructor can use the following table as a rough guide to choosing among chapters.

I have written the book to make international economics accessible to a wider student and professional audience than has been served by many international economics texts. I hope I have at least partially succeeded in this effort.

The book has an informal website to which I will be posting occasional updates as events and new research inevitably move forward. I would invite the reader to visit this website periodically: <http://iie.gmu.edu>.

SUGGESTED CHAPTER USE BY PROGRAM

Chapter	Economics	Business	International Studies	Development Studies
1 Windows on the World Economy	X	X	X	X
<i>Part I International Trade</i>				
2 Absolute Advantage	X	X	X	X
3 Comparative Advantage	X	X	X	X
4 Intra-Industry Trade	X	X		
5 The Political Economy of Trade	X	X	X	X
6 Trade Policy Analysis	X	X	X	X
7 The World Trade Organization	X		X	X
8 Preferential Trade Agreements	X	X	X	X
<i>Part II International Production</i>				
9 Foreign Market Entry and International Production		X		
10 Foreign Direct Investment and Intra-Firm Trade		X		
11 Managing International Production		X		
12 Migration			X	X
<i>Part III International Finance</i>				
13 Accounting Frameworks	X	X	X	X
14 Exchange Rates and Purchasing Power Parity	X	X	X	X
15 Flexible Exchange Rates	X	X	X	X
16 Fixed Exchange Rates	X	X	X	X
17 The International Monetary Fund	X		X	X
18 Crises and Responses	X	X	X	X
19 Monetary Unions	X		X	
<i>Part IV International Development</i>				
20 Development Concepts	X		X	X
21 Growth and Development	X		X	X
22 International Production and Development		X		X
23 The World Bank			X	X
24 Structural Change and Adjustment				X

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Acronyms

AANZFTA	ASEAN-Australia-New Zealand Free Trade Area
ACP	African, Caribbean, and Pacific
AD	Antidumping
AFTA	ASEAN Free Trade Area
AGE	Applied general equilibrium
AIDS	Acquired immune deficiency syndrome
ALBA	Bolivarian Alternative for the Americas
AMC	American Motor Corporation
AMS	Aggregate measure of support
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing
BAW	Beijing Auto Works
BIS	Bank for International Settlements
BIT	Bilateral investment treaty
CAMA	Central African Monetary Area
CAP	Common Agricultural Policy
CBD	Convention of Biological Diversity
CDF	Comprehensive Development Framework
CEC	Commission on Environmental Cooperation
CEPT	Common effective preferential tariff
CET	Common external tariff
CFA	Communauté Financière Africaine
CIG	Capital-intensive goods
CINDE	Coalición Costarricense de Iniciativas para el Desarrollo/Costa Rican Investment Board
CIP	Covered interest rate parity
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CMA	Common Monetary Area of Southern Africa
CMO	Contract manufacturing organization
CO	Certificate of origin
CPIA	Country Policy and Institutional Assessment
CRTA	Committee on Regional Trade Agreements
CTE	Committee on Trade and the Environment
CTH	Change in tariff heading

xxii ACRONYMS

CU	Customs union
CVD	Countervailing duties
DD	Demand diagonal
DPL	Development policy lending
DSB	Dispute Settlement Body
DSU	Dispute Settlement Understanding
EC	European Community
ECB	European Central Bank
ECF	Extended Credit Facility
ECOFIN	European Council of Ministers of Economics and Finance
ECSC	European Coal and Steel Community
ECU	European currency unit
EEC	European Economic Community
EFF	Extended Fund Facility
EFSF	European Financial Stability Facility
EKC	Environmental Kuznets curve
EMI	European Monetary Institute
EMIT	Working Group on Environmental Measures and International Trade
EMS	European Monetary System
EMU	European Monetary Union
EPZ	Export processing zone
ESCB	European System of Central Banks
EU	European Union
FAO	United Nations Food and Agriculture Organization
FCL	Flexible credit line
FDI	Foreign direct investment
FEER	Fundamental equilibrium exchange rate
FOGS	Functioning of the GATT system
FTA	Free trade agreement
FTAA	Free Trade Agreement of the Americas
GAB	General Agreement to Borrow
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDI	Gender-related development index
GDP	Gross domestic product
GEM	Gender empowerment measure
GNI	Gross national income
GNP	Gross national product
GPN	Global production network
GTAP	Global Trade Analysis Project
GTC	General trading company
HDI	Human development index
HDR	<i>Human Development Report</i>
HICP	Harmonized index of consumer prices
HIPC	Highly indebted poor country
HIV	Human immunodeficiency virus
HPI	Human poverty index

ACRONYMS

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HSM	High-skilled migration
IBRD	International Bank for Reconstruction and Development
ICSID	International Center for Settlement of Investment Disputes
ICT	Information and communication technology
ICU	International Clearing Union
IDA	International Development Agency (World Bank)
IDA	Industrial Development Authority (Ireland)
IDM	Integrated device manufacturer
IFC	International Finance Corporation
IFIAC	International Financial Institutions Advisory Commission
IFSC	International Financial Services Center (Ireland)
IIA	International investment agreement
ILO	International Labor Office
IMF	International Monetary Fund
IOM	International Organization for Migration
IP	Intellectual property
ISF	International Stabilization Fund
ITO	International Trade Organization
JV	Joint venture
LIG	Labor-intensive goods
LOLR	Lender of last resort
LSM	Low-skilled migration
M&A	Mergers and acquisitions
MAI	Multilateral Agreement on Investment
MAL	Minimum access level
MBS	Mortgage-backed security
MDG	Millennium Development Goals
MEA	Multilateral environment agreements
MFN	Most favored nation
MIGA	Multilateral Investment Guarantee Agency
MNE	Multinational enterprise
MPI	Multidimensional poverty index
MTN	Multilateral trade negotiation
NAAEC	North American Agreement on Environmental Cooperation
NAALC	North American Agreement on Labor Cooperation
NAB	New Agreement to Borrow
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NGBT	Negotiating group on basic telecommunications
NIC	Newly industrializing country
NT	National treatment
NTB	Nontariff barrier
NTM	Nontariff measure
OECD	Organization for Economic Cooperation and Development
OLI	Ownership, location, and internalization
OTDS	Overall trade distortion support
PC	Personal computer

xxiv ACRONYMS

PIIGS	Portugal, Italy, Ireland, Greece, and Spain
PNDC	Provisional National Defense Council (Ghana)
PPF	Production possibilities frontier
PPP	Purchasing power parity
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PTA	Preferential trade agreement
QPC	Quantitative performance criteria
R&D	Research and development
RCF	Rapid Credit Facility
REER	Real effective exchange rate
REEs	Rare earth elements
RIT	Regional investment treaty
ROO	Rule of origin
RORE	Rate of return to education
RTA	Regional trade agreement
RVC	Regional value content
SAB	South African Breweries
SACU	Southern African Customs Union
SAL	Structural adjustment lending
SBA	Standby Arrangement
SCF	Stand-By Credit Facility
SDR	Special drawing rights
SITC	Standard international trade classification
SLIG	Skilled labor-intensive goods
SOE	State-owned enterprise
SPS	Sanitary and phyto-sanitary
SRF	Supplemental Reserve Facility
STR	Standards and technical regulations
TBT	Technical barriers to trade
TEU	Treaty on European Union (Maastricht Treaty)
TNI	Transnationality index
TRIMS	Trade-related investment measures
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
TRQ	Tariff rate quota
TSMC	Taiwan Semiconductor Manufacturing Company
UIP	Uncovered interest rate parity
ULIG	Unskilled labor-intensive goods
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children’s Fund
URR	Unremunerated reserve requirement
U.S.	United States
USITC	United States International Trade Commission
VDR	Variable deposit requirement

ACRONYMS

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VEAM	Vietnam Engine and Agricultural Machinery Corporation
VER	Voluntary export restraint
VNM	Value of nonoriginating materials
WAMU	West African Monetary Union
WEO	World Environmental Organization
WTO	World Trade Organization

Symbols

<i>A</i>	Technology factor
<i>B</i>	Grubel-Lloyd index
<i>BI</i>	Belassa index of revealed comparative advantage
<i>C</i>	Household consumption or conditions
<i>D</i>	Demand or distance
<i>DD</i>	Demand diagonal
Δ	Change in
<i>e</i>	Nominal exchange rate or exports as a percent of GDP
<i>E</i>	Exports or emigration
<i>ES</i>	Emigration supply
<i>F</i>	Fixed costs or flow of trade/foreign direct investment
<i>G</i>	Government expenditures
<i>h</i>	Ratio of total human capital to total labor (human capital-labor ratio)
<i>H</i>	Total human capital
<i>I</i>	Investment
<i>ID</i>	Immigration demand
<i>k</i>	Ratio of total physical capital to total labor (capital-labor ratio)
<i>K</i>	Physical capital
<i>L</i>	Labor, liquidity, or loans
<i>M</i>	Money
<i>n</i>	Natural rate of population growth
<i>P</i>	Price or price level
<i>Q</i>	Quantity
<i>r</i>	Interest rate or crude birth/death rate
<i>R</i>	Total return on asset
<i>re</i>	Real exchange rate
<i>rw</i>	Relative wage
<i>S</i>	Supply
<i>S_F</i>	Foreign savings
<i>S_G</i>	Government savings
<i>S_H</i>	Household savings
<i>t</i>	Ad valorem tariff
<i>T</i>	Specific tariff or taxes
θ	Constant

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SYMBOLS

V	Variable costs
w	Wage
y	Real gross domestic product
Y	Nominal gross domestic production or gross national income
Z	Imports