# CONTENTS

List of figures \hspace{1cm} \hspace{1cm} page xi  
List of tables \hspace{1cm} \hspace{1cm} xv  
List of boxes \hspace{1cm} \hspace{1cm} xvii  
Preface \hspace{1cm} \hspace{1cm} xix  

## Part I  Introduction  

1 **The global economy**  
  1.1 Introduction 3  
  1.2 A sense of time: the universe and population 4  
  1.3 Income levels: GNP and GDP 10  
  1.4 What is the global economy? 17  
  1.5 Globalization and income 20  
  1.6 Globalization and international trade 24  
  1.7 Analysing the global economy 27  
  1.8 Conclusions 35  

2 **Getting the numbers right**  
  2.1 Introduction 38  
  2.2 Trade and multinational activity 39  
  2.3 Trade data and the current account 41  
  2.4 FDI data and the capital account 46  
  2.5 Sales and value added data 58  
  2.6 The right type of data 66  
  2.7 Measuring international capital mobility 69  
  2.8 Conclusions 75  

**Appendix** 76

## Part II  Firms, trade, and location  

3 **Trade, comparative advantage, and competition**  
  3.1 Introduction 81  
  3.2 Comparative advantage: David Ricardo’s fundamental insight 82  
  3.3 Comparative advantage versus competitiveness 88  
  3.4 Comparative advantage: the neo-classical answer 92
## Contents

3.5 The closed economy ........................................... 94
3.6 Open economy international trade: the Heckscher–Ohlin result .... 98
3.7 Factor endowments and competitiveness ........................ 103
3.8 Conclusions ..................................................... 104

4 Modern trade theory: the role of the firm ......................... 105
4.1 Trade and imperfect competition .............................. 105
4.2 Understanding intra-industry trade: imperfect competition 109
4.3 The trading equilibrium ........................................... 112
4.4 Monopolistic competition ........................................ 114
4.5 Trade with monopolistic competition .......................... 118
4.6 Empirical support for intra-industry trade ...................... 121
4.7 Firm heterogeneity ............................................... 123
4.8 Conclusions ..................................................... 131

5 Trade restrictions and trade policy ............................... 132
5.1 Introduction ...................................................... 132
5.2 Tariffs and trade restrictions ..................................... 133
5.3 Effects of tariffs ................................................... 136
5.4 World welfare effects of trade restrictions ...................... 140
5.5 Additional effects of protectionism .............................. 141
5.6 Trade agreements ................................................ 145
5.7 Strategic interaction between firms: the Airbus–Boeing example 151
5.8 Evaluation of the demand for and supply of trade protection .... 156

6 Firms, location, and distance ....................................... 157
6.1 Introduction ...................................................... 157
6.2 Transport costs ................................................... 158
6.3 Modelling distance at the firm level ............................ 164
6.4 Modelling distance at the country level: the gravity model .... 174
6.5 Liability of foreignness and multiple types of distance .......... 177
6.6 Integrative frameworks linking firm and country ............... 184

7 Managing across borders ........................................... 190
7.1 Introduction ..................................................... 190
7.2 Firm-specific advantages ................................ ...... 191
7.3 Multi-locational or multinational? ............................... 193
7.4 Managing the global–local paradox ................................ 196
7.5 Three illustrations of managing the global–local challenge .... 199
7.6 Entry modes .................................................... 212
7.7 Choosing the optimal entry mode ................................ 215
7.8 Conclusions ..................................................... 221
### Part III: Capital, currency, and crises

8  **Exchange rates**  225  
8.1 Introduction  225  
8.2 Exchange rates  229  
8.3 Exchange rates and prices  237  
8.4 Effective exchange rates  241  
8.5 Arbitrage and interest parity  246  
8.6 Conclusions  254  

9  **Currency crises and exchange rate policy**  256  
9.1 Introduction  256  
9.2 What is a currency crisis?  257  
9.3 Characteristics of currency crises  261  
9.4 First-generation models of currency crises  264  
9.5 Second-generation models of currency crises  269  
9.6 Expectations and contagion  273  
9.7 The exchange rate and the policy trilemma  276  
9.8 Looking ahead  281  

10  **Gains from international capital mobility**  282  
10.1 Introduction  282  
10.2 International allocation of savings and investment  284  
10.3 The degree of international capital market integration and a puzzle  289  
10.4 Does capital flow in the wrong direction?  292  
10.5 Capital flows and risk diversification  299  
10.6 Firm investment and asymmetric information  304  
10.7 Conclusions  310  

11  **Financial crises, firms, and the open economy**  311  
11.1 Introduction and terminology  311  
11.2 An asymmetric information view of financial crises  313  
11.3 A financial crisis framework  316  
11.4 Financial crises in an open economy  317  
11.5 Wake-up call and perverse savings  322  
11.6 Twin crises  325  
11.7 Bad fundamentals or malicious investors?  328  
11.8 Synthesis and conclusions: a vicious circle  331  

12  **The Great Recession**  333  
12.1 Introduction  333  
12.2 Seeds of the crisis  335
Contents

Part IV Consequences of globalization

13 Globalization and growth

13.1 Introduction
13.2 Catching up
13.3 Production, capital, and investment
13.4 Empirical implications
13.5 Technology, knowledge, innovation, and TFP growth
13.6 Open economies, TFP, and economic growth
13.7 A historical example: Japan
13.8 A recent example: China
13.9 Conclusions

14 Globalization and inequality

14.1 Introduction
14.2 Globalization and income growth: the big picture
14.3 Trade, skills, wages, and technology
14.4 Globalization and labour migration
14.5 Globalization and income distribution
14.6 Global income inequality
14.7 Outsourcing, skills, and development
14.8 Conclusions

Bibliography
Author index
Subject index