

Summary Contents

Preface	Page xvii
List of Abbreviations	xviii
List of Symbols	xxiii
1 Introduction	1
Part I. International Trade	
2 Absolute Advantage	27
3 Ricardian Model of Comparative Advantage	44
4 Heckscher–Ohlin Model of Comparative Advantage	60
5 Intra-Industry Trade	80
6 The Political Economy of Trade	97
7 Trade Policy Analysis	121
8 The World Trade Organization	145
9 Preferential Trade Agreements	173
Part II. International Production	
10 Multinational Enterprises and Foreign Direct Investment	203
11 Global Value Chains	232
12 Engaging International Production	256
13 Migration	283
Part III. International Finance	
14 Accounting Frameworks	311
15 Global Capital Flows	334
16 Exchange Rates and Purchasing Power Parity	355
17 Flexible Exchange Rates	376

viii	Summary Contents	
18	Fixed Exchange Rates	399
19	The International Monetary System	421
20	Crises and Responses	451
21	Monetary Unions	479
22	Growth in the Open Economy	508
	Glossary	534
	Index	544

Detailed Contents

Preface	Page xvii
List of Abbreviations	xviii
List of Symbols	xxiii

1 Introduction	1
International Trade	2
International Production	6
International Finance	9
Impacts on International Development	12
Larger Realms	14
Analytical Elements	18
Conclusion	19
Review Exercises	20
Further Reading and Web Resources	20
References	21

Part I. International Trade

2 Absolute Advantage	27
Defining Absolute Advantage	28
Absolute Advantage in Supply and Demand	30
Gains from Trade	35
Limitations	36
Conclusion	38
Review Exercises	39
Further Reading and Web Resources	39
References	39
Appendix 2.1: Review of Supply and Demand	40
3 Ricardian Model of Comparative Advantage	44
From Absolute Advantage to Comparative Advantage	44
Autarky and Comparative Advantage	48
International Trade	51
Gains from Trade	54
Conclusion	55
Review Exercises	55

x	Detailed Contents	
	Further Reading and Web Resources	56
	References	56
	Appendix 3.1: The Production Possibilities Frontier	57
4	Heckscher–Ohlin Model of Comparative Advantage	60
	Factors of Production	60
	From Factors of Production to Comparative Advantage	62
	International Trade	66
	Gains from Trade	70
	FDI, Migration, and Comparative Advantage	71
	Limitations	73
	Conclusion	75
	Review Exercises	76
	Further Reading and Web Resources	76
	References	77
	Appendix 4.1: The Gravity Model	78
5	Intra-Industry Trade	80
	Intra-Industry and Inter-Industry Trade	80
	Global Patterns of Intra-Industry Trade	83
	Intra-Industry Trade under Monopolistic Competition	86
	The Smooth Adjustment Hypothesis	90
	Conclusion	92
	Review Exercises	92
	Further Reading and Web Resources	93
	References	93
	Appendix 5.1: The Grubel–Lloyd Index	95
6	The Political Economy of Trade	97
	Approaches to the Political Economy of Trade	98
	Comparative Advantage, Trade, and Factors of Production	101
	North–South Trade and Wages	104
	The Role of Specific Factors	110
	Globalization and Inequality in High-Income Countries	113
	Conclusion	114
	Review Exercises	115
	Further Reading and Web Resources	115
	References	116
	Appendix 6.1: Endogenous Protection	118

7	Trade Policy Analysis	121
	Absolute Advantage Revisited	122
	Trade Policy Measures	123
	A Tariff	128
	Terms of Trade Effects	130
	A Quota	131
	Anti-Dumping and Countervailing Measures	133
	Comparative Advantage Models	136
	Conclusion	137
	Review Exercises	138
	Further Reading and Web Resources	138
	References	138
	Appendix 7.1: The Imperfect Substitutes Model	140
	Appendix 7.2: A Tariff Rate Quota	142
8	The World Trade Organization	145
	The General Agreement on Tariffs and Trade	146
	The World Trade Organization	149
	Trade in Goods	150
	Trade in Services	152
	Intellectual Property	155
	Dispute Settlement	159
	The Environment	162
	The Doha Round	164
	Conclusion	166
	Review Exercises	167
	Further Reading and Web Resources	168
	References	168
	Appendix 8.1: Tariff Rate Reduction Formulas	171
9	Preferential Trade Agreements	173
	Types of Preferential Trade Agreements	174
	Rules of Origin	177
	The Economic Effects of Preferential Trade Agreements	178
	The European Union	181
	The North American Free Trade Agreement	185
	Mercosur	189
	The FTAA	190
	ASEAN and AFTA	191

xii	Detailed Contents	
	The Trans-Pacific Partnership	192
	Regionalism and Multilateralism	192
	GATS-Plus and TRIPS-Plus	194
	Conclusion	195
	Review Exercises	196
	Further Reading and Web Resources	196
	References	197
	Part II. International Production	
10	Multinational Enterprises and Foreign Direct Investment	203
	Foreign Market Entry	203
	Motivations for International Production	208
	Entry Mode Choice	210
	Patterns of FDI	213
	MNE Organizational Design	217
	The Home Base	220
	Joint Ventures	222
	Research and Development	224
	Conclusion	228
	Review Exercises	228
	Further Reading and Web Resources	229
	References	229
11	Global Value Chains	232
	Tasks and Value Chains	232
	From Value Chains to Global Value Chains	236
	Firm-Specific Assets and Internalization	237
	Intra-Firm Trade	239
	A Cost View of Internalization	241
	Inter-Firm Relationships	242
	Tying Things Together: The TLM Framework	243
	Value Added in GVCs	246
	Trade in Value Added	248
	Trade Policy and Global Value Chains	251
	Conclusion	252
	Review Exercises	252
	Further Reading and Web Resources	253
	References	253
12	Engaging International Production	256
	Attracting International Production	257
	Benefits and Costs	259

Policy Stances	265
Entering Global Value Chains	268
Promoting Linkages	271
Governing International Production	274
Conclusion	277
Review Exercises	277
Further Reading and Web Resources	278
References	278
13 Migration	283
Types of Migration	284
The Migration Decision	286
High-Skilled Migration	290
Low-Skilled Migration	293
Remittances	298
Migration Policy	300
Conclusion	303
Review Exercises	304
Further Reading and Web Resources	304
References	304
Part III. International Finance	
14 Accounting Frameworks	311
Open-Economy Accounts	311
Balance of Payments Accounts	317
Analyzing the Balance of Payments Accounts	322
Global Imbalances	324
Conclusion	327
Review Exercises	328
Further Reading and Web Resources	328
References	328
Appendix 14.1: Accounting Matrices	329
Appendix 14.2: An Open-Economy Model	331
Appendix 14.3: Gross Domestic Product and Gross National Income	333
15 Global Capital Flows	334
Types of Capital Flows	335
Foreign Direct Investment	336
Equity Portfolio Investment	338
Bond Finance	339
Commercial Bank Lending	342

xiv	Detailed Contents	
	Net versus Gross Flows	343
	Determinants of Capital Flows	344
	Capital Account Liberalization	347
	Capital Controls	348
	Balance of Payments Revisited	351
	Conclusion	351
	Review Exercises	352
	Further Reading and Web Resources	352
	References	352
16	Exchange Rates and Purchasing Power Parity	355
	The Nominal Exchange Rate	356
	The Real Exchange Rate	360
	Purchasing Power Parity	362
	Exchange Rates and Trade Flows	366
	Hedging and Foreign Exchange Derivatives	367
	Conclusion	370
	Review Exercises	370
	Further Reading and Web Resources	371
	References	371
	Appendix 16.1: Price Levels and the PPP Model	372
	Appendix 16.2: The Monetary Approach to Exchange Rate Determination	374
17	Flexible Exchange Rates	376
	A Simple Model of Exchange Rate Determination	376
	A Trade-Based Model	378
	An Assets-Based Model	382
	Interest Rates, Expectations, and Exchange Rates	386
	Conclusion	390
	Review Exercises	390
	Further Reading and Web Resources	391
	References	391
	Appendix 17.1: Monetary Policies and the Nominal Exchange Rate	392
18	Fixed Exchange Rates	399
	Alternative Exchange Rate Regimes	399
	A Simple Model of Fixed Exchange Rates	402
	An Assets-Based Model of Fixed Exchange Rates	404
	Interest Rates and Exchange Rates	407
	The Role of Credibility	410

	Detailed Contents	xv
	The Impossible Trinity	411
	Currency Boards	413
	A Role for Fixed Rates?	414
	Conclusion	415
	Review Exercises	416
	Further Reading and Web Resources	416
	References	416
	Appendix 18.1: Monetary Policies and Fixed Exchange Rates	418
19	The International Monetary System	421
	Some Monetary History	422
	The Operation of the IMF	428
	A History of IMF Operations	432
	The Political Economy of IMF Lending	443
	An Assessment	445
	Conclusion	447
	Review Exercises	448
	Further Reading and Web Resources	448
	References	448
20	Crises and Responses	451
	Types of Crises	451
	Contagion and Systemic Risk	458
	Analyzing Balance of Payments and Currency Crises	459
	The Asian Crisis	462
	The IMF Response to the Asian and Brazilian Crises	465
	The Global Financial Crisis	467
	Prudential Regulation and the Basel Standards	470
	Capital Controls	472
	Conclusion	474
	Review Exercises	475
	Further Reading and Web Resources	475
	References	475
21	Monetary Unions	479
	The European Monetary Union at a Glance	479
	Planning the European Monetary Union	482
	Implementing the European Monetary Union	487
	Optimum Currency Areas and Adjustment in the EMU	493
	The EMU in the Global Financial Crisis	496
	Monetary Unions in Africa	502

xvi	Detailed Contents	
	Conclusion	504
	Review Exercises	505
	Further Reading and Web Resources	505
	References	505
22	Growth in the Open Economy	508
	Growth	508
	Old Growth Theory	513
	New Growth Theory and Human Capital	516
	Trade and Growth	519
	Institutions and Growth	523
	Conclusion	527
	Review Exercises	528
	Further Reading and Web Resources	528
	References	528
	Appendix 22.1: Growth Theory Algebra	532
	Glossary	534
	Index	544