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Macroeconomics
PART II  GLOBALIZATION: TRADE PATTERNS AND INCOME DISTRIBUTION  57

CHAPTER 4  Technology and International Income Distribution: The Ricardian Model  59
  4.1 The Ricardian Setting  60
  4.2 Free-Trade Equilibrium  61
  4.3 International Wage Comparisons and Productivities  64
  4.4 A Many-Commodity and Many-Country World  68
  4.5 Winners and Losers from Productivity Shocks  69
  4.6 Nontraded Commodities  72
  4.7 Summary  75
CHAPTER PROBLEMS  76
SUGGESTIONS FOR FURTHER READING  77
APPENDIX: Transitional Unemployment  77

CHAPTER 5  Factor Endowments and Trade I: The Specific Factors Model  79
  5.1 Diminishing Returns and Factor Hires  79
  5.2 Outputs and Income Distribution in the Closed Economy  80
  5.3 Outputs and Income Distribution with Free Trade  82
  5.4 Growth in Factor Endowments  84
  5.5 Consequences for Political Economy  85
  5.6 The Pattern of Trade  86
  5.7 Alternative Interpretations: Specific Capital or Specific Labor  87
  5.8 Dutch Disease  88
  5.9 Summary  90
CHAPTER PROBLEMS  92
SUGGESTIONS FOR FURTHER READING  93
APPENDIX: The Transformation Schedule  93

CHAPTER 6  Factor Endowments and Trade II: The Heckscher-Ohlin Model  95
  6.1 If Technology Is Rigid  96
  6.2 Flexible Technology  99
  6.3 Possible Trade Patterns and the Distribution of Income  102
6.4 International Trade with Many Commodities 106
6.5 How Concentrated Is Production? 108
6.6 Changing Comparative Advantage with Economic Growth 109
6.7 Heckscher-Ohlin Theory and Empirical Evidence 110
6.8 Summary 114

CHAPTER PROBLEMS 116
SUGGESTIONS FOR FURTHER READING 117
APPENDIX: The Production Box 118

CHAPTER 7 Imperfect Competition, Increasing Returns, and Product Variety 121
7.1 The Prevalence of Intra-Industry Trade 122
7.2 Consumer Behavior and the Demand for Product Variety 123
7.3 Increasing Returns in Production 125
7.4 Summary 131

CHAPTER PROBLEMS 132
SUGGESTIONS FOR FURTHER READING 132

CHAPTER 8 Resource Trade, Outsourcing, and Product Fragmentation 133
8.1 Given Resources and Footloose Production Processes 134
8.2 Footloose Inputs: The Joint Role of Comparative and Absolute Advantage 137
8.3 Outsourcing and the International Fragmentation of Production 141
8.4 Outsourcing and Advanced Country Wage Rates 144
8.5 Summary 147

CHAPTER PROBLEMS 148
SUGGESTIONS FOR FURTHER READING 148

CHAPTER 9 International Factor Movements: Labor and Capital 151
9.1 Factor Movements, Efficiency, and Welfare 151
9.2 International Capital Movements: Selected Issues 154
9.3 Multinationals and Foreign Direct Investment 158
9.4 Summary 164

CHAPTER PROBLEMS 165
SUGGESTIONS FOR FURTHER READING 166
CHAPTER 17 National Income and the Trade Balance 307
17.1 The Small-Country Keynesian Model 307
17.2 The National Saving-Investment Identity 309
17.3 Multipliers 310
17.4 The Transfer Problem 314
17.5 For a Large Country: The Two-Country Keynesian Model 316
17.6 Summary 321
CHAPTER PROBLEMS 322
SUGGESTIONS FOR FURTHER READING 324
APPENDIX: The Two-Country Model in Graphical Form 324

CHAPTER 18 Spending and the Exchange Rate in the Keynesian Model 327
18.1 Transmission of Disturbances 327
18.2 Expenditure-Switching and Expenditure-Reducing Policies 330
18.3 Monetary Factors 337
18.4 Summary 343
CHAPTER PROBLEMS 344
SUGGESTIONS FOR FURTHER READING 346
APPENDIX A: The Laursen-Metzler-Harberger Effect 346
APPENDIX B: The Assignment Problem 350

CHAPTER 19 The Money Supply, the Price Level, and the Balance of Payments 353
19.1 The Nonsterilization Assumption 353
19.2 The Purchasing Power Parity Assumption 358
19.3 Purchasing Power Parity in a Hyperinflation 369
19.4 PPP in the Model of the Balance of Payments 372
19.5 Summary 374
CHAPTER PROBLEMS 375
SUGGESTIONS FOR FURTHER READING 377
APPENDIX A: The Gold Standard 378
APPENDIX B: Reserve Flows After Spending Increase and Devaluation 382
APPENDIX C: The Determination of the Balance of Payments in the Monetarist Model 384
CHAPTER 20 Developing Countries and Other Small Open Economies with Nontraded Goods 391
  20.1 Nontraded Goods 392
  20.2 Expenditure and the Relative Price of Nontraded Goods 395
  20.3 The Monetary Approach with Nontraded Goods 401
  20.4 Summary 407
    CHAPTER PROBLEMS 407
    SUGGESTIONS FOR FURTHER READING 408

PART V INTERNATIONAL FINANCIAL MARKETS AND THEIR MACROECONOMIC IMPLICATIONS 409

CHAPTER 21 The Globalization of Financial Markets 411
  21.1 The Postwar Financial System (1944–1973) 412
  21.2 The Foreign Exchange Market 414
  21.3 Liberalization 419
  21.4 Innovation 426
  21.5 Advantages of Financial Integration 435
  21.6 Summary 439
    CHAPTER PROBLEMS 439
    SUGGESTIONS FOR FURTHER READING 440
    APPENDIX: The Effect of a Budget Deficit Under Intertemporal Optimization 441

CHAPTER 22 The Mundell-Fleming Model with Partial International Capital Mobility 445
  22.1 The Model 447
  22.2 Fiscal Policy and the Degree of Capital Mobility Under Fixed Rates 450
  22.3 Monetary Policy and the Degree of Capital Mobility Under Fixed Rates 452
  22.4 When Money Flows Are Not Sterilized 454
  22.5 Other Automatic Mechanisms of Adjustment 456
  22.6 The Pursuit of Internal and External Balance 457
  22.7 Summary 460
CHAPTER 23 Fiscal and Monetary Policy Under Modern Financial Market Conditions 467
  23.1 Fiscal Policy Under Floating: An Effect Mitigated by Capital Mobility 468
  23.2 Monetary Policy Under Floating: An Effect Enhanced by Capital Mobility 474
  23.3 Policy Under Perfect Capital Mobility 477
  23.4 Summary 486

CHAPTER 24 Crises in Emerging Markets 489
  24.1 Inflows to Emerging Markets 489
  24.2 Managing Outflows 498
  24.3 Speculative Attacks 499
  24.4 Contagion 504
  24.5 IMF Country Programs 506
  24.6 Contractionary Effects of Devaluation 510
  24.7 Capital Controls 515
  24.8 Reform of International Financial Architecture 518
  24.9 Summary 520

CHAPTER 25 Interdependence and Policy Coordination 525
  25.1 International Transmission of Disturbances Under Floating Exchange Rates 525
  25.2 Econometric Models of the Interdependent World Economy 530
  25.3 International Macroeconomic Policy Coordination 535
  25.4 Summary 540

APPENDIX: Zones of Internal and External Balance 461

CHAPTER PROBLEMS
SUGGESTIONS FOR FURTHER READING
CHAPTER PROBLEMS
SUGGESTIONS FOR FURTHER READING
CHAPTER PROBLEMS
SUGGESTIONS FOR FURTHER READING
CHAPTER 26 Supply and Inflation 543
26.1 The Aggregate Supply Relationship 543
26.2 Supply Relationship with Indexed Wages 551
26.3 Inflation 554
26.4 Alternative Anchors for a Country’s Money 556
26.5 The Choice of Exchange Rate Regime 559
26.6 Summary 567
CHAPTER PROBLEMS 568
SUGGESTIONS FOR FURTHER READING 568

PART VI THE DETERMINATION OF EXCHANGE RATES IN INTERNATIONAL ASSET MARKETS 571

CHAPTER 27 Expectations, Money, and the Determination of the Exchange Rate 573
27.1 Interest Rate Parity Conditions 573
27.2 The Monetary Model of Exchange Rates with Flexible Prices 575
27.3 Two Examples of the Importance of Expectations 585
27.4 Overshooting and the Real Exchange Rate 588
27.5 Two More Examples of the Importance of Expectations 599
27.6 Summary 603
CHAPTER PROBLEMS 604
SUGGESTIONS FOR FURTHER READING 605

CHAPTER 28 Exchange Rate Forecasting and Risk 607
28.1 Forecasting the Spot Exchange Rate 607
28.2 The Role of Exchange Risk 612
28.3 Portfolio Balance Effects on the Exchange Rate 616
28.4 Summary 620
CHAPTER PROBLEMS 621
SUGGESTIONS FOR FURTHER READING 622

PART VII SUPPLEMENTS FOR SELECTED CHAPTERS S-1
SUPPLEMENT TO CHAPTER 2: The Equations of Exchange Equilibrium S-3
SUPPLEMENT TO CHAPTER 3: Stability and Comparative Statics in the Basic Trade Model S-10
Preface

The Tenth Edition of *World Trade and Payments* arrives at a time when major new issues confront the international economy. The economy of China has blossomed swiftly, its growth heavily dependent on large volumes of exports of simple manufactures. Competing firms in North America and Western Europe find their businesses unprofitable and reduce their outputs. But they do not go quietly, instead beseeching their governments to restrict imports from China. The United States frets over its huge excess of imports over exports. The trade deficit can persist only because the rest of the world is willing to hold huge volumes of U.S. debt. Yet the U.S. creditors become less complaisant as the dollars pile up. Across the Atlantic the European Union continues to reap the benefits of reduced trade barriers among its members. It is in the process of absorbing a large bloc of Eastern European nations. Their trade is being redirected from the former Soviet Union’s bloc and toward the industrial nations of Western Europe.

Although it is easy to dramatize these fresh events, international economists know that they all have their historical antecedents. China enters onto a path of development previously traveled by Japan, then by the “Asian tigers”: Taiwan, Korea, Hong Kong, and Singapore. The U.S. trade imbalance and the dollar glut also have their historical parallels—once upon a time, there was a dollar shortage. Fortunately, economic analysis shows clearly how to conceptualize these recurring issues. For example, the U.S. trade deficit bears a fundamental relationship to saving and investment decisions made by both American households (who save little) and governments (the U.S. government spends much more than its revenue—it dissaves). Other major issues of policy and behavior in the international economy also enjoy rigorous links to important components of theoretical international economics.

We cannot claim clairvoyance about how the current major issues of international economics will be resolved over time. We do believe that international economics provides the intellectual structure that the student needs to interpret the evolving events and issues that make up the current news about the international economy. We have tried to present a clear and rigorous framework for the student, along with applications to contemporary issues such as those just listed (plus the odd antique issue, or perspective).

International economics shares with other branches of economics a basic dedication to the objective of maximum economic welfare. That goal can be made conceptually rigorous, but it does prod us to recognize some complicating factors. Whose welfare? The United States, or the world? Are they in conflict and, if so, when? What about the distribution of income among individuals? Many international economic disturbances and policy changes that raise national (aggregate) welfare leave some folk worse off. In fact the real wages of unskilled labor have been declining, while suppliers
of skilled labor and capital have gained. This pattern appears in the United States but also in other nations. Does this redistribution result from increased exports of simple manufactures from developing countries, produced by their abundant low-skill labor? Does it result from immigration to the industrial countries of workers with low skill levels? Or does it stem from causes independent of international trade? A prime suspect is changes in technology and demand that favor sophisticated goods (and services), shifting the demand for labor toward those workers with more education and higher skill levels. This issue of income distribution arises at several points in the book, because of the several explanations offered for it.

What’s New in This Edition

Through this and previous editions of World Trade and Payments we have sought to combine clear exposition of the proven and long-lasting basic theories and analytical constructs of international trade and finance with applications that illustrate their uses. We have incorporated new theoretical developments as they have come on stream, adjusting the emphasis given to those—new or old—that seem particularly helpful to the student seeking to understand the currently high-profile issues. At the same time we have kept a place for analyses focused on issues currently shaded from popular attention, but likely to blossom in future public discourse.

This general objective guides the changes that were made in this tenth edition. Parts I and II, dealing with the theory of international trade, have undergone a good deal of reorganization. Part I has been streamlined from three to two chapters, to use the “basic model” of trade to illustrate the gains from taking part in international trade, and some of the consequences of taking part in a globalized trading world when shocks occur within your own country or abroad. Part II turns to the important competitive trade models: Ricardo, Specific Factors, and Heckscher-Ohlin, followed by a new chapter integrating material on more recent models that emphasize increasing returns and imperfect competition. Emphasis is on both explaining trade patterns and showing how price and technology changes affect the distribution of real incomes among and within countries. A new chapter (Chapter 8) emphasizes the causes and consequences of “outsourcing” and fragmentation of production networks because of returns to scale and high technological improvements in service activities. Chapter 9 now deals with the effects of international factor movements, particularly the relatively empirical issues concerning international movements of capital.

In Part III, dealing with issues of international trade policy, Chapters 12 through 14 have been extensively rewritten to reflect the turnover of public issues. In Chapter 12 we include a case study of international competition in commercial aircraft—Boeing versus Airbus. Their rivalry, not new, has recently rekindled the policy issues that they raise. Changes in Chapter 13 reflect governments’ shifting away from traditional tariffs to controlling trade through anti-dumping regulations. Anti-dumping raises interesting issues of strategic interactions between international oligopolists. Chapter 14 on regional preferences contains much new material on the expansion of the European Union and the effects of the North American Free Trade Area. It also includes a study of trade’s role in China’s rapid development.
An important addition in the chapters on macroeconomics and financial markets is a section on the question whether China should abandon the effective pegging of its currency to the U.S. dollar. A new section deals with debt dynamics—the conditions under which a growing international debt (such as that of the United States) is sustainable over time. The innovative Chapter 24 on crises in emerging markets is significantly updated.

Adapting the Course

*World Trade and Payments* is adaptable to various tracking styles. Some chapters are followed by one or more appendixes that explain specialized points or analytical constructions that some instructors might favor but others prefer to avoid. Omitting any appendix will not lessen comprehension of the chapter. For instructors wanting a more advanced approach we have retained, at the back of the text, the mathematical supplements present in previous editions.

The book covers a conventional full line of topics and with some additional material can serve as the basis for a full-year course at the undergraduate level or for separate semester (quarter) courses on the real and financial aspects of international trade. We have paid special attention, however, to the needs of one-semester courses. The chapters in Part I and Chapters 16, 17, 23, and part of 19 provide the nucleus of a one-semester course that covers both the core of the real theory (with applications) and elements of open-economy macroeconomics and balance-of-payments adjustment. Many of the chapters outside this core are at least somewhat independent of one another, so that instructors can round out the course with selections from them (examples are Chapters 9 and 14). A course in international macroeconomics might add Chapters 15, 19 (especially Section 19.2), 22, 23, 25, 26, and 27. It might then also employ Chapters 20 and 24 if the orientation is toward developing countries, or Chapters 21 and 28 if the orientation is toward finance.

Acknowledgments

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