

# Chapter 1

## Introduction

### ■ Chapter Organization

What is International Economics About?

The Gains from Trade

The Pattern of Trade

How Much Trade?

Balance of Payments

Exchange Rate Determination

International Policy Coordination

The International Capital Market

International Economics: Trade and Money

### ■ Key Themes

The intent of this chapter is to provide both an overview of the subject matter of international economics and to provide a guide to the organization of the text. The study of the theory of international economics generates an understanding of many key events that shape our domestic and international environment. These events include the causes and consequences of: the large current account deficits of the United States; the dramatic appreciation of the dollar during the first half of the 1980s followed by its rapid depreciation in the second half of the 1980s; the Latin American debt crisis of the 1980s and Mexican crisis of 1994; the pressures for industry protection against foreign competition; and the efforts by industrialized countries to combat protectionist pressures and achieve a more integrated world economy. More recently, the financial crisis that began in East Asia in 1997 and spread to many countries around the globe, the creation of a single currency in Europe, and the backlash against globalization have highlighted the way in which various national economies are linked and really underscored how important it is for us to understand these connections. The text presents material that will enable you to understand the economic context in which these events occur.

Chapter 1 of the text demonstrates the increasing importance of international economics to the United States and the rest of the world. Interdependence among national economies arises in the context of (1) international trade in merchandise and goods, including manufactured products such as clothing, textiles, and chemicals, or raw materials, such as diamonds and copper; and (2) trade in financial assets, such as securities, stocks, bonds, and ownership of plants and equipment in other countries.

This chapter also highlights and briefly discusses seven themes which arise throughout the book. These themes include the gains from trade, the pattern of trade, protectionism, the balance of payments, exchange rate determination, international policy coordination, and the international capital markets.

So many of the issues hotly debated in the press, in the markets, on Wall Street, and in policy institutions worldwide come under the rubric of one of these themes. Indeed, next time you pick up a newspaper, think about the number of articles in front of you that are concerned with our trade and economic interactions with other countries. The scope of international economics is absolutely enormous. Below, a brief overview is provided of the themes presented in Section I of the textbook. Other section overviews are provided within the body of the *Study Guide*. While you will probably not understand all of the terms and concepts that are introduced briefly in these overview sections, you should come away from reading these with a good idea of the emphasis of parts of the textbook and of the scope of knowledge which you will have when you complete this course in international economics.