

# INTERNATIONAL ECONOMICS

FOURTH EDITION

ROBERT M. DUNN, JR.  
GEORGE WASHINGTON UNIVERSITY

JAMES C. INGRAM  
UNIVERSITY OF NORTH CAROLINA



JOHN WILEY & SONS, INC.

NEW YORK CHICHESTER BRISBANE TORONTO SINGAPORE

# CONTENTS

<b>PART ONE</b>	<b>INTERNATIONAL TRADE</b>	<b>1</b>
<b>CHAPTER 1</b>	<b>INTRODUCTION</b>	<b>3</b>
	WHY INTERNATIONAL ECONOMICS IS A SEPARATE FIELD	6
	THE ORGANIZATION OF THIS VOLUME	9
<b>CHAPTER 2</b>	<b>WHY NATIONS TRADE: CLASSICAL THEORY</b>	<b>13</b>
	ABSOLUTE ADVANTAGE	14
	COMPARATIVE ADVANTAGE	17
	RECIPROCAL DEMAND AND THE TERMS OF TRADE	21
	Reciprocal Demand Through Supply and Demand Curves	22
	APPENDIX: AN ILLUSTRATIVE EXAMPLE OF COMPARATIVE ADVANTAGE	26
<b>CHAPTER 3</b>	<b>WHY NATIONS TRADE: MODERN THEORY</b>	<b>33</b>
	SOME PRELIMINARY CONCEPTS	34
	Opportunity Cost	34
	The Production-Possibility Curve	34
	Community Indifference Curves	37
	INTERNATIONAL TRADE: CONSTANT COSTS	40
	INTERNATIONAL TRADE: INCREASING-COST CASE	46
	The Pre-Trade Equilibrium	48
	The Post-Trade Equilibrium	50
	The Effects of Trade	51
	The Division of the Gains from Trade	51
	OFFER CURVES	54
	Comparative Advantage with Many Goods	56
	ADDITIONAL BENEFITS FROM TRADE	58
	Trade as an Antitrust Policy	58
	Trade and Economies of Scale	59
	Choice as a "Good"	59
	Trade as a Force for Peace	60
	APPENDIX: THE ROLE OF MONEY PRICES	62
<b>CHAPTER 4</b>	<b>A BASIS FOR TRADE: THE FACTOR PROPORTIONS HYPOTHESIS</b>	<b>67</b>
	THE FACTOR PROPORTIONS HYPOTHESIS: A GENERAL VIEW	68
	FURTHER IMPLICATIONS OF THE FACTOR PROPORTIONS THEORY	71
	Equalization of Factor Prices	71
	Income Redistribution and the Welfare Economics of Trade	73

	Fixed Factors of Production in the Short Run	75
	Trade: A Substitute for Factor Movements	76
	EMPIRICAL VERIFICATION	77
	APPENDIX: A MORE FORMAL DERIVATION OF HECKSCHER-OHLIN WITH TWO COUNTRIES, TWO COMMODITIES, AND TWO FACTORS	81
<b>CHAPTER 5</b>	<b>NEW APPROACHES TO TRADE THEORY</b>	<b>91</b>
	THE PRODUCT CYCLE	92
	ECONOMIES OF SCALE IN IMPERFECTLY COMPETITIVE MARKETS	96
	PREFERENCE SIMILARITY HYPOTHESIS, OR INTRA-INDUSTRY TRADE	101
	BORDER TRADE	103
	THE GRAVITY EQUATION	103
	THE EFFECTS OF ECONOMIC GROWTH ON TRADE	104
	Changes in Factor Supplies	104
	Neutral Growth	104
	Growth in a Single Factor of Production	107
	The Case of Immiserizing Growth	108
	Technological Change	110
	Changes in Demand	111
	TRANSPORT COSTS	111
	DUMPING	112
	CARTELS	115
	INTERNATIONAL ASPECTS OF ENVIRONMENTAL ECONOMICS	116
<b>CHAPTER 6</b>	<b>THE THEORY OF PROTECTION: TARIFFS AND OTHER BARRIERS TO TRADE</b>	<b>125</b>
	TARIFFS: PARTIAL EQUILIBRIUM ANALYSIS	127
	The Small-Country Case	127
	QUOTAS AND OTHER NONTARIFF BARRIERS	130
	Quotas	131
	SUBSIDIES	135
	THE LARGE-COUNTRY CASE	137
	GENERAL EQUILIBRIUM ANALYSIS	138
	The Small-Country Case	139
	The Large-Country Case	141
	THE EFFECTIVE TARIFF	144
	EXPORT SUBSIDIES	148
	EXPORT TARIFFS	150
<b>CHAPTER 7</b>	<b>ARGUMENTS FOR PROTECTION: GOOD AND BAD, MOSTLY BAD</b>	<b>155</b>
	MAJOR ARGUMENTS FOR RESTRICTING IMPORTS	157
	Increasing Output and Employment	157
	Closing a Trade Deficit	158
	Pauper Labor	158
	Heckscher-Ohlin and Factor-Price Equalization	159
	The Terms-of-Trade Argument	160
	The Infant-Industry Argument	162
	Industrial Strategy or Strategic Trade	164
	SECONDARY ARGUMENTS FOR PROTECTIONISM	168
	National Defense	168
	Cultural or Social Values	170

	Protection to Correct Distortions in the Domestic Market	170
	Revenues	172
	CONCLUSION	173
<b>CHAPTER 8</b>	<b>REGIONAL BLOCS: DISCRIMINATORY TRADE LIBERALIZATION</b>	<b>179</b>
	ALTERNATIVE FORMS OF REGIONAL LIBERALIZATION	180
	EFFICIENCY GAINS AND LOSSES	181
	DYNAMIC EFFECTS	185
	THE 1992 PROGRAM FOR THE EUROPEAN ECONOMIC COMMUNITY	186
	OTHER REGIONAL GROUPS	188
	Nafta	189
<b>CHAPTER 9</b>	<b>COMMERCIAL POLICY</b>	<b>195</b>
	LONG SWINGS IN COMMERCIAL POLICY	195
	THE U.S. TARIFF, 1789–1934	197
	A U.S. INITIATIVE: THE RECIPROCAL TRADE AGREEMENTS PROGRAM	202
	SHIFT TO MULTILATERALISM	203
	THE LAST THREE GATT ROUNDS: KENNEDY, TOKYO, AND URUGUAY	206
	The Kennedy Round	206
	The Tokyo Round	208
	The Uruguay Round	211
	INTELLECTUAL PROPERTY	213
	THE 1988 OMNIBUS TRADE ACT	215
<b>CHAPTER 10</b>	<b>THE TRADE OF LESS DEVELOPED COUNTRIES</b>	<b>219</b>
	PRIMARY PRODUCT EXPORTERS	221
	DETERIORATING TERMS OF TRADE	224
	ALTERNATIVE TRADE POLICIES FOR DEVELOPING COUNTRIES	227
	Import Substitution	227
	Export Led Growth	229
	APPENDIX: WHO TRADES WITH WHOM: LEVELS AND RECENT GROWTH	232
<b>CHAPTER 11</b>	<b>INTERNATIONAL MOBILITY OF LABOR AND CAPITAL</b>	<b>235</b>
	ARBITRAGE IN LABOR AND CAPITAL MARKETS	236
	IMMIGRATION PRESSURES FROM DEVELOPING COUNTRIES	240
	CAPITAL FLOWS AND MULTINATIONAL FIRMS	241
	The Debate Over MNCs: Some Global Issues	244
	Efficiency	249
	Equity	250
	The Debate over MNCs: Some Specific Issues	251
<b>PART TWO</b>	<b>INTERNATIONAL FINANCE AND OPEN ECONOMY MACROECONOMICS</b>	<b>257</b>
<b>CHAPTER 12</b>	<b>BALANCE-OF-PAYMENTS ACCOUNTING</b>	<b>259</b>
	DISTINGUISHING DEBITS AND CREDITS IN THE ACCOUNTS	261
	ANALOGY TO A FAMILY'S CASH FLOW ACCOUNTS	262
	CALCULATION OF ERRORS AND OMISSIONS	264
	ORGANIZING THE ACCOUNTS FOR A COUNTRY WITH A FIXED EXCHANGE RATE	265

**CHAPTER 19 INTERNATIONAL MONETARY EXPERIENCE BEFORE WORLD WAR II 431**

*Before 1880 432*

THE GOLD STANDARD, 1880 TO 1914 435

The Process of Adjustment 435

Some Qualifications and Amendments 441

THE INTERWAR PERIOD, 1918 TO 1940 446

1919 to 1926: An Episode of Fluctuating Exchange Rates 446

The Gold Standard Restored, 1925/1926 to 1931 457

EPILOGUE 472

The Adequacy of International Reserves 474

Short-Term Capital Movements 475

Speculation 475

**CHAPTER 20 THE INTERNATIONAL MONETARY SYSTEM, 1945 TO 1973 479**

ESSENTIAL ELEMENTS OF THE BRETTON WOODS SYSTEM 480

Exchange Rates 480

Quotas and Drawing Rights 482

Exchange Control 483

The Scarce-Currency Clause 484

THE IMF SYSTEM IN OPERATION, 1947 TO 1971 485

The Dollar Shortage, 1945 to 1958 486

The Dollar Surplus: A Basic Dilemma 487

Failure of Adjustment 489

PERIMETER DEFENSES AND BASIC REFORMS 493

Defenses 493

Reforms 494

THE FINAL YEARS 496

THE EUROCURRENCY MARKET 497

How the Eurodollar Market Works 498

Why the Eurodollar Market Exists 500

The Effect of the Eurocurrency Market on National Monetary  
Autonomy 501

The Size of the Eurocurrency Market 503

Recycling Oil Payments 503

**CHAPTER 21 RECENT EVENTS IN INTERNATIONAL MONETARY RELATIONS:  
1973 TO THE PRESENT 507**

A VERY BRIEF HISTORY OF THE U.S. FLOAT 508

CONTINUING QUESTIONS ABOUT FLEXIBLE EXCHANGE RATES 511

TRYING TO EXPLAIN EXCHANGE RATE MOVEMENTS 515

PROTECTIONISM AND FLEXIBLE EXCHANGE RATES 517

ALTERNATIVES TO FLEXIBLE EXCHANGE RATES 517

THE EUROPEAN MONETARY SYSTEM 520

CHANGES IN THE ROLE OF THE SDR 524

LATIN AMERICAN DEBTS AND U.S. BANKS 524

Causes of the Debt Crisis 525

How the Debt Crisis was Eased	527
THE BASLE ACCORD	528
MEXICO IN 1994–95: A RETURN OF THE DEBT CRISIS?	529
PROSPECTIVE ISSUES DURING THE REMAINDER OF THE 1990s	532
APPENDIX: A HALF CENTURY OF CHALLENGES AND CHANGE: HIGHLIGHTS OF THE IMF'S 50-YEAR HISTORY	536

**GLOSSARY**    **541****INDEX**    **551**