**CHAPTER 1**

**THE INTERNATIONAL ECONOMY AND GLOBALIZATION**

**INTRODUCTION TO STUDY GUIDE AND WORKBOOK**

**SYNOPSIS OF CHAPTER CONTENT**

International economics deals with economic relations in a global economy characterized by increasing interdependence among nations. One component of such interdependence is the trading relations among nations, through exports and imports of goods and services. Such trade involves manufactured products, but also exports and imports of energy and other raw materials, some of which are becoming increasingly scarce. Other dimensions of interdependence include economic aid from one nation to another, and loans, which have created serious problems of foreign debt for some nations. Short-term capital flows among nations with increasing ease, as investors seek high interest rates and safe havens. Multinational enterprises establish operations around the world, including a growing presence of foreign multinationals in the United States, making it increasingly difficult to determine whether IBM, with nearly half of its operations outside the United States, or Toyota, with auto factories in Kentucky, is the more "American" company.

This book begins with a focus on why nations choose to trade with each other, and why they often adopt trade or commercial policies that include tariffs and other trade barriers rather than adopting completely free trade policies. Trade policies of developing countries, regional trade agreements, and the movements of capital and labor among countries also are examined in the first major section of the text, comprising Chapters 2 through 9. Beginning with Chapter 10, our focus shifts to the monetary or financial side of international economics, dealing with the balance of payments, foreign exchange markets, international banking activities, and changes in the international monetary system through which nations attempt to manage their financial relations with each other.

This study guide and workbook is designed to supplement the primary text. The first segment of each chapter provides a brief summary of the main points in the corresponding text chapter. The remaining components of each study guide chapter are outlined briefly below. They reflect the author's strong conviction that students learn international economics most effectively by becoming actively involved with the material, by "doing” the economics rather than simply reading about it. Thus, students are encouraged to use this guide as a genuine "workbook," taking pen or pencil in hand, working individually or in small groups to answer the questions posed and problems presented, mastering the theory and grappling enthusiastically with the important policy issues found in the real world of international economics.

**KEY CONCEPTS AND TERMS**

This section is designed to help solidify your grasp of the important economic concepts presented in each chapter. Try not only to define each term, but also to illustrate its significance in regard to your understanding of international economic relations.

**TRUE OR FALSE?**

These questions are designed not so much to test your memorization of facts as to challenge you to think analytically about international economic theory and policy. Try to think through this analysis, and perhaps explain your reasoning to other students, rather than simply identifying the correct response.

**MULTIPLE CHOICE**

The multiple choice questions also are designed to give you practice in using economic analysis to understand theoretical relationships and policy issues. Again, try to explain the reasoning behind your selections.

**PROBLEMS AND SHORT ANSWER QUESTIONS**

This component gives you the greatest opportunity to "do" international economics. Challenge yourself not only to "think" about the questions but actually to write out responses to the short essay questions and to work through or solve the problems presented. This is perhaps the best way to increase your mastery of and self-confidence regarding international economics, and to prepare for class discussions and examinations. Working in small groups to answer these questions and to review your answers can be very helpful.

**EXPLORATIONS BEYOND THE CLASSROOM**

This final segment of each chapter is designed to move students beyond the text and the classroom into the real world of international economics. The goal is to find examples in current publications that illustrate the relevance of concepts and theories developed in the text. These questions provide good opportunities for students to bring to life what they have learned from the text. An effective way to enhance your participation in class is to select one of these questions and work with a small group of two or three students to do some brief library research and prepare a short oral class presentation on your findings.

**SUPPLEMENTARY REFERENCES** (These resources may be helpful in connection with the "Explorations Beyond the Classroom" questions.)

**Encyclopedias, Dictionaries**

Encyclopedia of Economics

International Encyclopedia of the Social Sciences

The New Palgrave: A Dictionary of Economics

**Newspapers**

The Christian Science Monitor

The New York Times

The Wall Street Journal

Newsletters issued by Federal Reserve district banks and by major commercial banks such as Citibank, Chase Manhattan, and J.P. Morgan

**Magazines, Reports on International Economic Policy**

Business Week

Challenge

Congressional Quarterly Weekly Report. U.S. Congress

The Economist (London)

Fortune

Far Eastern Economic Review

U.N. Chronicle

U.N. Observer

World Press Review

**Sources of Data and International Statistics**

Balance of Payments Statistics. International Monetary Fund

Direction of Trade Statistics. International Monetary Fund

Economic Report of the President. President of the United States

The Europa World Yearbook. London

Federal Reserve Bulletin. Board of Governors of the U.S. Federal Reserve System

International Financial Statistics Yearbook. International Monetary Fund

International Trade (annual). General Agreement on Tariffs and Trade

International Trade Statistics Yearbook. United Nations

Survey of Current Business. U.S. Department of Commerce

World Development Report. The World Bank

World Economic Survey. United Nations

**Sources of Information on the Internet**

CNN Interactive (international news).

http://www.cnn.com/

U.S. Department of Commerce. International Trade Administration.

http://www.ita.doc.gov/

U.S. Department of the Treasury. United States Customs Service.

http://www.customs.treas.gov

U.S. International Trade Commission.

http://www.usitc.gov/

United States Trade Representative.

http://www.ustr.gov/

Export-Import Bank of the United States.

http://www.exim.gov/

U.S. Federal Reserve System.

http://www.federalreserve.gov/

U.S. Agency for International Development.

http://www.info.usaid.gov/

International Monetary Fund.

http://www.imf.org/

World Trade Organization.

http://www.wto.org/

World Bank.

http://www.worldbank.org/

United Nations.

http://www.un.org/

Organization for Economic Co-operation and Development.

http://www.oecd.fr/

Inter-American Development Bank.

http://www.iadb.org/

OANDA: Currency Converter (foreign exchange rates).

http://www.oanda.com