*CHAPTER 1
(Core Chapter)

INTRODUCTION

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KEY TERMS

Globalization
Anti-globalization movement
Interdependence
International trade policy
Balance of payments
Foreign exchange markets
Adjustment in the Balance of Payments
Microeconomics
Macroeconomics
Open-economy macroeconomics
International finance
World Trade Organization (WTO)
International Monetary Fund (IMF)
United Nations (UN)

LECTURE GUIDE

1. As the first chapter of the book, the general aim here is simply to define the field of study of international economics and point out its importance in today's interdependent world.

2. The material in this chapter can be covered in three classes. I would utilize one class to cover Sections 1-2 and the second class for Sections 3-5. I would spend most of the third class on Section 6 to identify the major current international economic problems facing the United States and the world and to show how international economics can suggest ways to solve them. This should greatly enhance students' motivation.

ANSWERS TO REVIEW QUESTIONS AND PROBLEMS

1. Globalization refers to the openness and the free exchange of goods, services, resources, technologies, moneys, and ideas around the world. The advantages of globalization are that it increases efficiency in production and leads to higher income for the nation's workers. Globalization often also makes available a greater range of cheaper and or better products to the nation's consumers, and provides opportunities for higher returns a greater risk diversification to the nation's investors. The disadvantages of globalization is that it often leads to job losses and lower wages for low-skilled labor in advanced nations and harm (i.e., it is a "brain drain" for) the nations of emigration. Financial globalization and unrestricted capital flows can also lead international financial crises. It is these disadvantages and negative aspects of globalization have given rise to a strong anti-globalization movement, which blames globalization for sacrificing human and environmental well-being to the corporate profits of multinationals.

2. International economic relations differ from interregional (i.e. within a country) economic relations in that nations usually impose some restrictions on the flow of goods, services, and factors across their borders, but not interregionally or internally (i.e., not across regions of the same nation). In addition, international flows are to some extent hampered by differences in language, customs, and laws. Furthermore, international flows of goods, services, and resources give rise to payments and receipts in foreign currencies, which change in value over time.

3. A rough measure of the economic relationship among nations, or their interdependence, is given by the ratio of their imports and exports of goods and services to their gross domestic product (GDP). The imports and exports as a percentage of GDP are much larger for small industrial and developing countries than they are for large countries.

4. The United States relies less on international trade for its high standard of living than most other nations because it is continental in size with immense natural and human resources. As such, it can produce with relative efficiency most of the products it needs. Contrast this to the position of a small nation, such as Switzerland, which can specialize and export only a small range of commodities and imports all the others. In general, the larger the nation the smaller

is its economic interdependence with the rest of the world.

5. Even though the United States relies only to a relatively small extent on international trade, a significant part of its high standard of living depends on it. The United States must import many commodities that it cannot produce and several needed minerals that it does have. More important quantitatively to its economic well-being, however, are the many commodities that the United States could produce domestically but only at relatively higher cost.

6. The immigration of skilled people benefits the United States because it raises the skill level, average income, and the growth rate of the nation. The cost arises from immigration of unskilled people and from the job competition which migrants provide to native workers.

7. Capital flows across national boundaries in search of higher returns and to diversify risks.

8. The major international economic problems facing the world today are:

   (1) slow growth and high unemployment in advanced nations after "the great recession";
   (2) the rise of trade protectionism in advanced countries in a rapidly globalizing world;
   (3) excessive volatility and large disequilibria in exchange rates;
   (4) structural imbalances in advanced economies and insufficient restructuring in transition economies;
   (5) deep poverty in many developing countries, and
   (6) resource scarcity, environmental degradation, and climate change.

9. The most important economic international economic and political institutions are:

   (1) The World Trade Organization (WTO), which regulates international trade;
   (2) World Bank, which provides loans to developing countries for development programs aimed at reducing poverty;
   (3) International Monetary Fund (IMF), which oversees the conduct of international financial relations and provides borrowing facilities for member nations in temporary balance of payments difficulties;
   (4) United Nations (UN), which seeks to facilitate cooperation in international law, international security, economic development, social progress, and human rights issues.

10. The problems facing the world today affect the United States and you as an individual as follows:

   (1) Slow growth and high unemployment in advanced nations after "the great recession" means slower growth and higher unemployment for the United States than otherwise in our interdependent world and very likely less job opportunities and stagnant wages for you also.

(2) Trade controversies between the United States, Europe, and Japan and emerging market economies, such as China, can result in trade restrictions or even trade wars, which would reduce the volume and the gains from trade and the flow of international investments and the benefits resulting from them. As an individual, you can be caught losing your job and a stagnant income.

(3) Excessive exchange rate volatility and misalignments discourage foreign trade and investments, reduce specialization in production and the benefits from trade, which means higher prices for your imported goods and services, more expensive travel.

(4) Structural imbalances (excessive and unsustainable trade and budget disequilibria) in advanced countries and insufficient restructuring in transition economies mean slower growth than possible as advanced nations try to eliminate or reduce their structural imbalances and transition economies redouble their efforts to complete the restructure of their economies. This also means possibly job opportunities for you and stagnant wages.

(5) Deep poverty in many developing nations in the world mean that the United States and other rich countries need to provide more foreign aid and open their markets more widely to the exports of the world's poorest countries. This can result in your paying higher taxes and facing more job and income pressures.

(6) Resource scarcity, environmental degradation, and climate change means that the price of food and raw materials is likely to increase in the future and the United States and other countries need to spend more to protect the environment and prevent damaging climate change. All this means higher costs for all of us.

MULTIPLE-CHOICE QUESTIONS

1. Which of the following statements about globalization is false?

   a. it increase economic efficiency
   b. it cannot be avoided
   c. it benefits all people
   d. none of the above

2. The anti-globalization movement blames globalization for

   a. increasing income inequalities in the world
   b. child labor
   c. environmental pollution
   d. all of the above

3. The criticism of the anti-globalization movement is

   a. all wrong

b. all correct
c. is only partly correct
d. is impossible to answer

4. Which of the following products are not produced at all in the United States?

a. coffee, tea, cocoa
b. steel, copper, aluminum
c. petroleum, coal, natural gas
d. typewriters, computers, airplanes

5. International trade is most important to the standard of living of:

a. the United States
b. Switzerland
c. Germany
d. England

6. Over time, the economic interdependence of nations has:

a. grown
b. diminished
c. remained unchanged
d. cannot say

7. A rough measure of the degree of economic interdependence of a nation is given by:

a. the size of the nations' population
b. the ratio of its population to its GDP
c. the ratio of a nation's imports and exports to its GDP
d. all of the above

8. Economic interdependence is greater for:

a. small nations
b. large nations
c. developed nations
d. developing nations

9. International economics deals with:

a. the flow of goods, services and payments among nations
b. policies directed at regulating the flow of goods, services and payments
c. the effects of policies affecting international trade and finance on the welfare of the nation
d. all of the above

10. International trade theory refers to:

    a. the microeconomic aspects of international trade
    b. the macroeconomic aspects of international trade
    c. open-economy macroeconomics or international finance
    d. all of the above

11. Which of the following is not the subject matter of international finance?

    a. foreign exchange markets
    b. the balance of payments
    c. the basis and the gains from trade
    d. policies to adjust balance of payments disequilibria

12. International trade is similar to interregional trade in that both must overcome:

    a. distance and space
    b. trade restrictions
    c. differences in currencies
    d. differences in monetary systems

13. The opening or expansion of international trade usually affects all members of society:

    a. positively
    b. negatively
    c. most positively but some negatively
    d. most negatively but some positively

14. An increase in the dollar price of a foreign currency usually:

    a. benefit U.S. importers
    b. benefits U.S. exporters
    c. benefit both U.S. importers and U.S. exporters
    d. harms both U.S. importers and U.S. exporters

15. Which of the following statements with regard to international economics is true?

    a. it is a relatively new field
    b. it is a relatively old field
    c. most of its contributors were not economists
    d. none of the above.

