

EE451

Chapter 1: Introduction

Nitinant Wisaweesuan

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What is International Economics About?

- International economics deals with economic interactions that occur between independent countries.
- Two main areas:
 - International trade
 - International monetary economics

Importance of International Economics

- The world is getting smaller everyday.
 - Speedy and easy transportation and communications.
 - Cross-border transactions: purchase of goods, services provision, travel, investment, media, marketing, working abroad, etc.

Importance of International Economics

- Exports generate foreign exchange to a country, encouraging domestic production, and contributing to higher economic growth and income.
- A country's economic growth is largely dependent of global demand.
- In turn, higher level of income may encourage more imports and produce some adverse effects.
- Trade balance can bring about an ultimate impact on macroeconomic environment as well as welfare changes.

Principal Questions in Trade Theory

- Why does the US export cars to Germany? Why doesn't it export coffee to Colombia? Why doesn't Colombia export VCR to Japan? etc. These are all questions about the ***pattern of trade***.
- If Thailand exports rice to the US, and the US exports auto to Thailand, what determines how many autos can be gotten in exchange for it? This is a question of relative prices of exports and imports, or the ***terms of trade***.
- When countries trade, do they benefit? Or are they harmed by it? Do some countries gain at the expenses of others? Will they be best off with free trade or by implementing restrictions? How do we decide which measure is appropriate? These are questions regarding the ***welfare*** and the potential for improving it via policy.

Coverage of Trade Theory

- What determines the basis for trade?
- **The Pattern of Trade** (who sells what to whom?)
- What determines the value and volume of trade?
- What factors impede trade flows?
- What are the effects of trade?
- What is the impact of public policy that attempts to alter the pattern of trade?
- Goals:
 - To understand how international trade affects our country
 - To be able to evaluate the implications of government policies that are undertaken to influence the level and direction of international transactions.

Measures of Internationalisation

- Degree of openness: $(X+M)/GDP$
- Degree of economic interdependence:
 - Export of final goods and services to GDP ratio
 - High ratio indicates a more complex international trade network

International Trade Data

- World Trade Organisation
- Eurostat
- COMTRADE
- Global Trade Atlas
- National Customs Department

1. The world economy

Explanations for trade

Classical

- 2. Opportunity costs
- 3. Comparative advantage

Neo-classical

- 4. Production structure
- 5. Factor prices
- 6. Production volume
- 7. Factor abundance

New trade

- > 9. Imperfect competition
- > 10. Intra-industry trade

New interactions

- > 14. Geographical economics
- > 15. Multinationals
- > 16. New goods, growth, and development

Policy

8. Trade policy

11. Strategic trade policy

12. Int. trade organizations

13. Economic integration

17. Applied trade policy modeling

18. Concluding remarks

Part I

Part II

Part III

Part IV

Industrial organization

Economic geography

International business

Growth theory