

Preface for Students

International economics will influence your private and business lives. International economics has moved to the center stage as countries become more integrated through increased international trade, foreign investment and migration. The world is effectively shrinking due to transportation and telecommunication.

The foreign exchange market is the largest market in the world. Industries wax and wane in the face of global markets and international competition. International agreements such as the World Trade Organization (WTO), North American Free Trade Area (NAFTA), and European Union (EU) are becoming the fundamental form of government.

Government protection tries to ease the pressures of international competition. Industries seek protection in the form of tariffs and quotas, securing profit but hurting the economy. Tax policies hinder international trade and investment. Government central banks interfere with the foreign exchange market. Such policy maneuvers impede international commerce and lower global income.

This text focuses on the microeconomic foundation of international economics, examining the system of international markets. In microeconomics, an economy is a collection of interdependent markets. In international economics, markets and economies are linked across borders.

International economics is based on the supply and demand for goods and services across countries. Comparative advantage is the basic tool for predicting international production and trade. The international supply of traded products is based on underlying production capabilities. The production and trade of minerals and agricultural goods are based on geographical advantages. For manufactured goods and services, capital is an important input that can be installed where there is labor and infrastructure.

International trade is to the arbitrage of products from countries where prices are low. Through arbitrage, traders make profit and products are more economically distributed. International demand is based on income and tastes. The interaction of international supply and demand determines the pattern of production and trade. The effects of trade and trade policy depend partly on the types of industries involved, from competition to monopoly.

Trade policies are designed to redistribute income toward some favored industry or group, altering the efficient pattern of production and distribution. The costs of protection outweigh the benefits, but industry and labor groups

lobby for protective tariffs and quotas because they stand to gain at the expense of others. Politicians respond to political pressure and contributions.

International economics builds models to capture the essence of international commerce. The fundamental scientific models of international economics have stood the test of time. Models are tested and refined as more is learned about how the international economy works.

The graphs, examples, applications, and problems in this text are essential for learning. There are hints for even numbered problems. Good luck, and I think you will enjoy *International Economics: Global Markets and International Competition*.

Visit the international economics web site at www.auburn.edu/~thomph1 where you can find analysis of current events and links to data and resources in international economics. E-mail the author at thomph1@auburn.edu.