

Preface

Economics is an integral part of the business curriculum in mature countries and developing countries, alike. And, well it should be! The economy, the setting in which business firms operate, is a dominant factor influencing business performance. It affects decisions by investors, manufacturers, distributors, importers and exporters, etc. in all parts of the world. Often, it is the difference between growth and profitability, on one hand, and stagnation or failure, on the other. Yet, understanding what is going on in the local economy and “out there in the world” has become a particular challenge to managers in recent years as the world economy has undergone overwhelming changes:

In many dimensions, today’s economic environment represents a “new economy:”

- * New information technologies have created a knowledge-based economy where brain power is more important than muscle power. Networked computers are the basis for new systems of information and control being introduced by businesses worldwide. New technologies are producing rapid increases in productivity, creating a “second wind” of economic progress, even in the most advanced mature economies.
- * The result has been a broad restructuring of the nature and location of production. Manufactures are being increasingly assembled in the developing nations, while the advanced developed countries are turning to high technology and high income services like computer programming and consulting, technology development, financial and insurance services, communications and entertainment.
- * The global economy is far more interrelated than in the past. Barriers to international trade and finance have been greatly reduced. Trade flows have become the engine of growth in many developing countries. Capital flows have turned out to be a mixed blessing, providing finance for development

and increasing the volatility of world capital markets, perhaps even destabilizing them. A country's economic performance is increasingly influenced not only by the local economic environment and policy but also by external shocks through trade and capital flows.

- * The relative rankings of the world's regions with respect to output, welfare and competitiveness are shifting drastically. While some of the mature industrial countries were showing signs of stagnation and rising unemployment, until the recent crisis, East Asia was undergoing a headlong rush to development. Huge consumer markets were created in areas that once offered households little more than chickens and coconuts. In the past decade, even the very poor countries have had a far better record of growth than at earlier periods. Most, but not all, of the transition economies of Eastern Europe are also showing signs of economic resurgence.
- * Economic priorities are changing worldwide: from stability to growth, from planning to free markets, from state-owned enterprise to private businesses.
- * Even economic theory has changed: the new theories of growth, international development and economic geography have greatly influenced economic thinking and policy prescription. On the other hand, most of the traditional elements of economic theory still apply even in the "new economy."

Macroeconomics is no longer just for economics specialists. A knowledge of the mechanisms that influence the economy's growth, income, employment, prices, interest rates and international trade is essential background for business and financial decision makers.

Macroeconomics is no longer simply for a domestic audience concerned with the ups and downs of the American economy. The focus of concern is shifting geographically outside the United States and toward the developing countries. With the emergence of rapidly growing economies in Asia — some of which have achieved high income status — and with renewed growth in many other parts of the world, business managers see opportunities in faraway places. The globalization of business calls for managers with perspectives over a world that stretches far beyond our national boundaries, from developed countries to developing ones. The growth spurt of the developed countries is a result of the "new economy" of IT networks and

sophisticated high technology. Macroeconomics is no longer primarily concerned with the business cycle and fiscal and monetary stabilization policy. The macro course must encompass questions of growth and development, technical change and international economic linkages.

There is need, consequently, for a new perspective to macroeconomics. This book seeks to provide a new, more up-to-date, view relevant to the issues encountered by business in developed and developing countries. It is a challenge to deviate from the approach focused on the business cycle and stabilization policy of the typical macro course, to a more global, development and business-oriented perspective. We pose questions that prospective international business people ask and seek to provide answers that they will find useful.

Our primary concerns have been as follows:

- * to recognize the significant changes in the world economic environment associated with the “new economy;”
- * to cover questions of growth and development in the world economy, as well as the traditional issues of stabilization theory and policy;
- * to view the issues from an international perspective: as seen in developing countries as well as in developed countries;
- * to discuss the aspects of macroeconomics that are relevant to business, showing the linkages from the national economic situation to the variables directly influencing the performance of enterprises;
- * to present the subject, insofar as it is possible, in realistic terms, recognizing the underlying theories and illustrating them with examples and case studies from contemporary policy-making and business practice; and
- * to consider the implications of the economic setting for business strategy.

A central theme of this volume is the startling contrast between the growth and stabilization experience of the industrial world and of the developing countries of East Asia. This contrast in economic performance serves as a focus for discussions of growth and development. Economic stabilization plays an important role in both the developed and developing countries. The advent of financial crisis in East Asia and the impact of the “new economy” also inform our evaluation of policy for the advanced and the developing

world. This analysis serves as a framework for appraising opportunities and risks from the perspective of business.

This volume was written initially to meet the needs of a business curriculum based on the programs sponsored by the Wharton and Kellogg business schools at the Sasin Graduate Institute of Business Administration of Chulalongkorn University in Bangkok. For this reason, many of the country examples cover East Asian experience. Draft versions have also been used in courses at other universities, for example, at the University of Pennsylvania and Northeastern University in the US and at the International University of Japan. The book is intended for a broad audience, domestically and internationally, one that includes mature business students, intermediate level undergraduates, and informed laypersons.