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8th Edition

International Economics

Theory & Policy

Krugman • Obstfeld

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Preface

This eighth edition of *International Economics: Theory & Policy* comes out at a time when events in the global economy have more influence over national policies and political debate than ever before. The world that emerged from World War II was one in which trade, financial, and even communication links between countries were limited. One decade into the 21st century, however, the picture is very different. Globalization has arrived, big time. International trade in goods and services has expanded steadily over the past six decades thanks to declines in shipping and communication costs, globally negotiated reductions in government trade barriers, the widespread outsourcing of production activities, and a greater awareness of foreign cultures and products. International trade in financial assets such as currencies, stocks, and bonds has expanded at a much faster pace even than international product trade—creating benefits for owners of wealth, but also risks of contagious financial instability. New and better communications technologies, notably the Internet, have revolutionized the way people in all countries obtain and exchange information. But perhaps the biggest recent change on the international scene is the emergence of China—a development that promises to redefine the international balance of economic and political power in the coming century.

Although the shape of the world economy today would have astounded people had they learned about it at the mid-point of the 20th century, the economic concerns that continue to cause international debate have not changed that much since they were first analyzed by economists more than two centuries ago. What are the merits of free trade among nations compared with protectionism? What causes countries to run trade surpluses or deficits with their trading partners, and how are such imbalances resolved over time? What causes banking and currency crises in open economies, and how should governments handle such convulsions? As always in international economics, the interplay of events and ideas has led to new modes of analysis. In turn, these analytical advances, however abstruse they may seem at first, ultimately do end up playing a major role in governmental policies, in international negotiations, and in people's everyday lives. Globalization has made citizens of all countries much more aware than ever before of the worldwide economic forces that influence their fortunes.

The idea of writing this book came out of our experience in teaching international economics to undergraduates and business students since the late 1970s. We perceived two main challenges in teaching. The first was to communicate to students the exciting intellectual advances in this dynamic field. The second was to show how the development of international economic theory has traditionally been shaped by the need to understand the changing world economy and analyze actual problems in international economic policy.

We found that published textbooks did not adequately meet these challenges. Too often, international economics textbooks confront students with a bewildering array of special models and assumptions from which basic lessons are difficult to extract. Because many of these special models are outmoded, students are left puzzled about the real-world relevance of the analysis. As a result, many textbooks often leave a gap between the somewhat antiquated material to be covered in class and the exciting issues that dominate current research and policy debates. That gap has widened dramatically as the importance of international economic problems—and enrollments in international economics courses—have grown.

This book is our attempt to provide an up-to-date and understandable analytical framework for illuminating current events and bringing the excitement of international economics