

# International Economics

S

## THEORY & POLICY

#### EIGHTH EDITION

Paul R. Krugman

Maurice Obstfeld University of California, Berkeley



Boston San Francisco New York London Toronto Sydney Tokyo Singapore Madrid Mexico City Munich Paris Cape Town Hong Kong Montreal

Comi	tents	
	Preface	XX
0	Introduction	1
	What Is International Economics About?	3
	The Gains from Trade	
	The Pattern of Trade	
	How Much Trade?	
	Balance of Payments	
	Exchange Rate Determination	
	International Policy Coordination	
	The International Capital Market	
	International Economics: Trade and Money	8
Part 1	International Trade Theory	11
2	World Trade: An Overview	12
	Who Trades with Whom?	
	Size Matters: The Gravity Model	
	The Logic of the Gravity Model	
•	Using the Gravity Model: Looking for Anomalies	
	Impediments to Trade: Distance, Barriers, and Borders	
	The Changing Pattern of World Trade	
	Has the World Gotten Smaller?	
	What Do We Trade?	
	Service Outsourcing	
	Summary	
2	Labor Productivity and Comparative Advantage: The Ricardian Model	27
	The Concept of Comparative Advantage	
	A One-Factor Economy	
	Production Possibilities	
	Relative Prices and Supply	
	Trade in a One-Factor World	
	Determining the Relative Price After Trade	
	BOX: Comparative Advantage in Practice: The Case of Babe Ruth	
	The Gains from Trade	
	A Numerical Example	
	Relative Wages	
	BOX: The Losses from Nontrade	
	Misconceptions About Comparative Advantage Productivity and Competitiveness	
	The Pauper Labor Argument	
	Exploitation	
	BOX: Do Wages Reflect Productivity?	
	Comparative Advantage with Many Goods	

Setting Up the Model	
Relative Wages and Specialization	
Determining the Relative Wage in the Multigood Model	
Adding Transport Costs and Nontraded Goods	
Empirical Evidence on the Ricardian Model	
Summary	51
Resources, Comparative Advantage,	
and Income Distribution	54
A Model of a Two-Factor Economy Prices and Production	
Choosing the Mix of Inputs	
Factor Prices and Goods Prices	
Resources and Output	
Effects of International Trade Between	01
Two-Factor Economies	61
Relative Prices and the Pattern of Trade	
Trade and the Distribution of Income	
Factor-Price Equalization	
Trade and Income Distribution in the Short Run	
CASE STUDY: North-South Trade and Income Inequality	
The Political Economy of Trade: A Preliminary View	
The Gains from Trade, Revisited	
Optimal Trade Policy	
Income Distribution and Trade Politics	
Empirical Evidence on the Heckscher-Ohlin Model	
Testing the Heckscher-Ohlin Model	
BOX: Income Distribution and the Beginnings	
of Trade Theory	76
Implications of the Tests	
Summary	
Appendix: Factor Prices, Goods Prices, and Input Choices	
Choice of Technique	
Goods Prices and Factor Prices	
3 The Standard Trade Model	88
A Standard Model of a Trading Economy	89
Production Possibilities and Relative Supply	
Relative Prices and Demand	
The Welfare Effect of Changes in the Terms of Trade	
Determining Relative Prices	
Economic Growth: A Shift of the RS curve	94
Growth and the Production Possibility Frontier	94
Relative Supply and the Terms of Trade	
International Effects of Growth	96
CASE STUDY: Has the Growth of Newly Industrializing	
Countries Hurt Advanced Nations?	
International Transfors of Income: Shifting the RD Curve	00

LASE STUDY: Has the Growth of Newly Industrianzing
Countries Hurt Advanced Nations?
International Transfers of Income: Shifting the RD Curve
The Transfer Problem
Effects of a Transfer on the Terms of Trade
Presumptions About the Terms of Trade Effects of Transfers
CASE STUDY: The Transfer Problem and the Asian Crisis

Tariffs and Export Subsidies: Simultaneous Shifts in RS and RD	
Relative Demand and Supply Effects of a Tariff	
Effects of an Export Subsidy	
Implications of Terms of Trade Effects: Who Gains and Who Loses?	
Summary	
Appendix: Representing International Equilibrium	
with Offer Curves	111
Deriving a Country's Offer Curve	
International Equilibrium	
-	
	,

#### Economies of Scale, Imperfect Competition, and International Trade Economics of Scale and International Trade: An Or

Economies of Scale and International Trade: An Overview	
The Theory of Imperfect Competition	
Monopoly: A Brief Review	
Monopolistic Competition	
Limitations of the Monopolistic Competition Model	
Monopolistic Competition and Trade	
The Effects of Increased Market Size	
Gains from an Integrated Market: A Numerical Example	
Economies of Scale and Comparative Advantage	
The Significance of Intraindustry Trade	
Why Intraindustry Trade Matters	
CASE STUDY: Intraindustry Trade in Action:	
The North American Auto Pact of 1964	.134
Dumping	
The Economics of Dumping	
CASE STUDY: Antidumping as Protectionism	.138
Reciprocal Dumping	
The Theory of External Economies	.140
Specialized Suppliers	
Labor Market Pooling	141
Knowledge Spillovers	
External Economies and Increasing Returns	142
External Economies and International Trade	
External Economies and the Pattern of Trade	
Trade and Welfare with External Economies	
Dynamic Increasing Returns	
Interregional Trade and Economic Geography	
BOX: Tinseltown Economics	
Summary	
Appendix: Determining Marginal Revenue	.152

D International Factor Movements	153
International Labor Mobility	
A One-Good Model Without Factor Mobility	
International Labor Movement	
Extending the Analysis	
CASE STUDY: Wage Convergence in the Age of Mass Migration	
CASE STUDY: Immigration and the U.S. Economy	

International Borrowing and Lending	
Intertemporal Production Possibilities and Trade	
The Real Interest Rate	
Intertemporal Comparative Advantage	
Direct Foreign Investment and Multinational Firms	
BOX: Does Capital Movement to Developing Countries Hurt	
Workers in High-Wage Countries?	
The Theory of Multinational Enterprise	
Multinational Firms in Practice	
CASE STUDY: Foreign Direct Investment in the United States	
BOX: Taken for a Ride	
Summary	
Appendix 1: Finding Total Output from the Marginal Product Curve	
Appendix 2: More on Intertemporal Trade	

Part 2	International Trade Policy	181
8	The Instruments of Trade Policy	182
	Basic Tariff Analysis	
	Supply, Demand, and Trade in a Single Industry	
	Effects of a Tariff	
	Measuring the Amount of Protection	
	Costs and Benefits of a Tariff	
	Consumer and Producer Surplus	
	Measuring the Costs and Benefits	
	Other Instruments of Trade Policy	
	Export Subsidies: Theory	
	CASE STUDY: Europe's Common Agricultural Policy	
	Import Quotas: Theory	
	CASE STUDY: An Import Quota in Practice: U.S. Sugar	
	Voluntary Export Restraints	
	CASE STUDY: A Voluntary Export Restraint in Practice: Japanese Autos	
	Local Content Requirements	
	BOX: American Buses, Made in Hungary	
	Other Trade Policy Instruments	
	The Effects of Trade Policy: A Summary	
	Summary	
	Appendix 1: Tariff Analysis in General Equilibrium	
	A Tariff in a Small Country	
	A Tariff in a Large Country	
	Appendix 2: Tariffs and Import Quotas in the Presence of Monopoly	~
	The Model with Free Trade	
	The Model with a Tariff	
	The Model with an Import Quota	
	Comparing a Tariff and a Quota	
0	The Political Economy of Trade Policy	212
	The Case for Free Trade	
	Free Trade and Efficiency	~
	Additional Gains from Free Trade	
	Rent-Seeking	
	Political Argument for Free Trade	
	CASE STUDY: The Gains from 1992	

÷

	National Welfare Arguments Against Free Trade	
	The Terms of Trade Argument for a Tariff	
	The Domestic Market Failure Argument Against Free Trade	
	How Convincing Is the Market Failure Argument?	
	Income Distribution and Trade Policy	
	Electoral Competition	
	BOX: Politicians for Sale: Evidence from the 1990s	
	Collective Action	
	Modeling the Political Process	
	Who Gets Protected?	
	International Negotiations and Trade Policy	
	The Advantages of Negotiation	
	International Trade Agreements: A Brief History	
	The Uruguay Round	
	From the GATT to the WTO	
	Box: Settling a Dispute—and Creating One	
	Benefits and Costs	
	CASE STUDY: Testing the WTO's Mettle	
	The Doha Disappointment	
	BOX: Do Agricultural Subsidies Hurt the Third World?	
	Preferential Trading Agreements	
	Box: Free Trade Area versus Customs Union	
	BOX: Do Trade Preferences Have Appeal?	
	CASE STUDY: Trade Diversion in South America	
	Summary	
	Appendix: Proving That the Optimum Tariff Is Positive	.247
	Demand and Supply	
	The Tariff and Prices     The Tariff and Domestic Welfare	
		.240
10	Trade Policy in Developing Countries	250
in an install	Import-Substituting Industrialization	251
	The Infant Industry Argument	
	Promoting Manufacturing Through Protection	
	CASE STUDY: Mexico Abandons Import-Substituting Industrialization	
	Results of Favoring Manufacturing: Problems	
	of Import-Substituting Industrialization	256
	Trade Liberalization Since 1985	
	Export-Oriented Industrialization: The East Asian Miracle	
	The Facts of Asian Growth	
	Trade Policy in the HPAEs	
	BOX: India's Boom	
	Industrial Policy in the HPAEs	
	Other Factors in Growth	
	Summary	
	•	
100	Controversies in Trade Policy	266
ramentizes and	Sophisticated Arguments for Activist Trade Policy	.267
	Technology and Externalities	
	Imperfect Competition and Strategic Trade Policy	
	CASE STUDY: When the Chips Were Up	

Globalization and Low-Wage Labor	
The Anti-Globalization Movement	
Trade and Wages Revisited	
Labor Standards and Trade Negotiations	
Environmental and Cultural Issues	
The WTO and National Independence	
CASE STUDY: Bare Feet, Hot Metal, and Globalization	
Globalization and the Environment	
Globalization, Growth, and Pollution	
The Problem of "Pollution Havens"	
Environmental Issues and Trade Negotiations	
Summary	
-	

Part 3	Exchange Rates and Open-Economy	,
	Macroeconomics	287
02	National Income Accounting and the Balance of Payments	288
	The National Income Accounts	
	National Product and National Income	291
	Capital Depreciation and International Transfers	292
	Gross Domestic Product	292
	National Income Accounting for an Open Economy	
	Consumption	293
	Investment	
	Government Purchases	294
	The National Income Identity for an Open Economy	
	An Imaginary Open Economy	
	The Current Account and Foreign Indebtedness	
	Saving and the Current Account	
	Private and Government Saving	298
	CASE STUDY: Government Deficit Reduction May Not Increase the	
	Current Account Surplus	
	The Balance of Payments Accounts	
	Examples of Paired Transactions	302
	The Fundamental Balance of Payments Identity	304
	The Current Account, Once Again	304
	The Capital Account	306
	The Financial Account	306
	The Statistical Discrepancy	
	Official Reserve Transactions	
	CASE STUDY: The Assets and Liabilities of the World's Biggest Debtor	309
	Summary	
م در ماند. م		
<u>0</u> 2	Exchange Rates and the Foreign Exchange Market: An Asset Approach	317
	Exchange Rates and International Transactions	318
	Domestic and Foreign Prices	
	Exchange Rates and Relative Prices	320
	The Foreign Exchange Market	
	The Actors	
	BOX: A Tale of Two Dollars	322

	Foreign Exchange Swaps	
	The Demand for Foreign Currency Assets	
	Assets and Asset Returns	327
	BOX: Nondeliverable Forward Exchange Trading in Asia	
	Risk and Liquidity	330
	Interest Rates	
	Exchange Rates and Asset Returns	332
	A Simple Rule	
	Return, Risk, and Liquidity in the Foreign Exchange Market	
	Equilibrium in the Foreign Exchange Market	
	Interest Parity: The Basic Equilibrium Condition	336
	How Changes in the Current Exchange Rate Affect Expected Returns	337
	The Equilibrium Exchange Rate	
	Interest Rates, Expectations, and Equilibrium	
	The Effect of Changing Interest Rates on the Current Exchange Rate	
	The Effect of Changing Expectations on the Current Exchange Rate	
	Summary	
	Appendix: Forward Exchange Rates and Covered Interest Parity	348
69	Money, Interest Rates, and Exchange Rates	351
	Money Defined: A Brief Review	352
	Money as a Medium of Exchange	352
	Money as a Unit of Account	
	Money as a Store of Value	
	What Is Money?	
	How the Money Supply Is Determined	
	The Demand for Money by Individuals	
	Expected Return	
	Risk	
	Liquidity	
	Aggregate Money Demand	
	The Equilibrium Interest Rate: The Interaction of Money Supply and Demand	
	Equilibrium in the Money Market	
	Interest Rates and the Money Supply	
	Output and the Interest Rate	
	Linking Money, the Interest Rate, and the Exchange Rate	
	U.S. Money Supply and the Dollar/Euro Exchange Rate	
	Europe's Money Supply and the Donar/Euro Exchange Rate	
	Money, the Price Level, and the Exchange Rate in the Long Run	
	Money and Money Prices	
	The Long-Run Effects of Money Supply Changes	366
	Empirical Evidence on Money Supplies and Price Levels	
	Money and the Exchange Rate in the Long Run	
	Inflation and Exchange Rate Dynamics	
	Short-Run Price Rigidity versus Long-Run Price Flexibility	
	BOX: Money Supply Growth and Hyperinflation in Bolivia	
	Permanent Money Supply Changes and the Exchange Rate	
	Exchange Rate Overshooting	375
	CASE STUDY: Can Higher Inflation Lead to Currency Appreciation?	
	The Implications of Inflation Targeting	
	Summary	

00	Price Levels and the Exchange Rate in the Long Run	382
	The Law of One Price	383
	Purchasing Power Parity	384
	The Relationship Between PPP and the Law of One Price	
	Absolute PPP and Relative PPP	
	A Long-Run Exchange Rate Model Based on PPP	
	The Fundamental Equation of the Monetary Approach	
	Ongoing Inflation, Interest Parity, and PPP	
	The Fisher Effect	
	Empirical Evidence on PPP and the Law of One Price	
	Explaining the Problems with PPP	
	Departures from Free Competition	
	Box: Some Meaty Evidence on the Law of One Price	
	Differences in Consumption Patterns	570
	and Price Level Measurement	398
	PPP in the Short Run and in the Long Run	
	CASE STUDY: Why Price Levels Are Lower in Poorer Countries	
	Beyond Purchasing Power Parity: A General Model	
	of Long-Run Exchange Rates	401
	The Real Exchange Rate	
	Demand, Supply, and the Long-Run Real Exchange Rate	
	BOX: Sticky Prices and the Law of One Price: Evidence	
	from Scandinavian Duty-Free Shops	404
	Nominal and Real Exchange Rates in Long-Run Equilibrium	.407
	International Interest Rate Differences and the Real Exchange Rate	409
	Real Interest Parity	410
	Summary	412
	Appendix: The Fisher Effect, the Interest Rate, and the Exchange	
	Rate under the Flexible-Price Monetary Approach	417
100	Output and the Exchange Rate in the Short Run	420
<u>w</u>		
	Determinants of Aggregate Demand in an Open Economy	
	Determinants of Consumption Demand	
	Determinants of the Current Account	
	How Real Exchange Rate Changes Affect the Current Account     How Disposable Income Changes Affect the Current Account	
	The Equation of Aggregate Demand	
	The Real Exchange Rate and Aggregate Demand	
	Real Income and Aggregate Demand	
	How Output Is Determined in the Short Run	
	Output Market Equilibrium in the Short Run: The DD Schedule	
	Output, the Exchange Rate, and Output Market Equilibrium	
	Deriving the DD Schedule	
	Factors That Shift the DD Schedule	
	Asset Market Equilibrium in the Short Run: The AA Schedule	.431
	Output, the Exchange Rate, and Asset Market Equilibrium	
	Deriving the AA Schedule	
	Factors That Shift the AA Schedule	.434
	Short-Run Equilibrium for an Open Economy:	
	Putting the DD and AA Schedules Together	.435

Temporary Changes in Monetary and Fiscal Policy	
Monetary Policy	437
Fiscal Policy	438
Policies to Maintain Full Employment	439
Inflation Bias and Other Problems of Policy Formulation	
Permanent Shifts in Monetary and Fiscal Policy	
A Permanent Increase in the Money Supply	
Adjustment to a Permanent Increase in the Money Supply	
A Permanent Fiscal Expansion	
Macroeconomic Policies and the Current Account	
Gradual Trade Flow Adjustment and Current Account Dynamics	
The J-Curve	
Exchange Rate Pass-Through and Inflation	
BOX: Exchange Rates and the Current Account	
Summary	
Appendix 1: Intertemporal Trade and Consumption Demand	
Appendix 2: The Marshall-Lerner Condition and Empirical	
Estimates of Trade Elasticities	
postany	
Fixed Exchange Rates and Foreign Exchange Intervention	460
Why Study Fixed Exchange Rates?	
Central Bank Intervention and the Money Supply	
The Central Bank Balance Sheet and the Money Supply	
Foreign Exchange Intervention and the Money Supply	
Sterilization	
The Balance of Payments and the Money Supply	
How the Central Bank Fixes the Exchange Rate	
Foreign Exchange Market Equilibrium Under a Fixed Exchange Rate	
Money Market Equilibrium Under a Fixed Exchange Rate	
A Diagrammatic Analysis	
Stabilization Policies with a Fixed Exchange Rate	
Fiscal Policy	
Changes in the Exchange Rate	
Adjustment to Fiscal Policy and Exchange Rate Changes	
Balance of Payments Crises and Capital Flight	
Managed Floating and Sterilized Intervention	
Box: Brazil's 1998–1999 Balance of Payments Crisis	
Perfect Asset Substitutability and the Ineffectiveness	••••••••
of Sterilized Intervention	
Foreign Exchange Market Equilibrium Under Imperfect	
Asset Substitutability	
The Effects of Sterilized Intervention with Imperfect Asset Substitutability	
Evidence on the Effects of Sterilized Intervention	
Reserve Currencies in the World Monetary System	
The Mechanics of a Reserve Currency Standard	
The Asymmetric Position of the Reserve Center	
The Gold Standard	
The Mechanics of a Gold Standard	
Symmetric Monetary Adjustment Under a Gold Standard	
Benefits and Drawbacks of the Gold Standard	
The Bimetallic Standard	
The Gold Exchange Standard	

.

CASE STUDY: The Demand for International Reserves	
Summary	
Appendix 1: Equilibrium in the Foreign Exchange Market	
with Imperfect Asset Substitutability	
Demand	
Supply	
Equilibrium	
Appendix 2: The Timing of Balance of Payments Crises	

Part 4	International Macroeconomic Policy	501
12	The International Monetary System, 1870–1973	502
	Macroeconomic Policy Goals in an Open Economy	503
	Internal Balance: Full Employment and Price Level Stability	503
	External Balance: The Optimal Level of the Current Account	504
	International Macroeconomic Policy Under the Gold Standard, 1870–1914	507
	Origins of the Gold Standard	
	External Balance Under the Gold Standard	507
	The Price-Specie-Flow Mechanism	508
	The Gold Standard "Rules of the Game": Myth and Reality	509
	Internal Balance Under the Gold Standard	509
	BOX: Hume versus the Mercantilists	510
	CASE STUDY: The Political Economy of Exchange Rate Regimes:	
	Conflict Over America's Monetary Standard During the 1890s	511
	The Interwar Years, 1918–1939	512
	The Fleeting Return to Gold	
	International Economic Disintegration	
	CASE STUDY: The International Gold Standard and the Great Depression	
	The Bretton Woods System and the International Monetary Fund	
	Goals and Structure of the IMF	
	Convertibility and the Expansion of Private Financial Flows	
	Speculative Financial Flows and Crises	
	Analyzing Policy Options Under the Bretton Woods System	
	Maintaining Internal Balance	
	Maintaining External Balance	
	Expenditure-Changing and Expenditure-Switching Policies	
	The External Balance Problem of the United States	
	CASE STUDY: The Decline and Fall of the Bretton Woods System	
	Worldwide Inflation and the Transition to Floating Rates	
	Summary	

Macroeconomic Policy and Coordination Under Floating Exchange Rates	532
The Case for Floating Exchange Rates	533
Monetary Policy Autonomy	533
Symmetry	534
Exchange Rates as Automatic Stabilizers	535
The Case Against Floating Exchange Rates	537
Discipline	537
Destabilizing Speculation and Money Market Disturbances	538
Injury to International Trade and Investment	539

Uncoordinated Economic Policies	539
The Illusion of Greater Autonomy	539
CASE STUDY: Exchange Rate Experience Between the Oil	
Shocks, 1973–1980	
Macroeconomic Interdependence Under a Floating Rate	
CASE STUDY: Disinflation, Crisis, and Global Imbalances, 1980-2008	
What Has Been Learned Since 1973?	
Monetary Policy Autonomy	551
Symmetry	553
The Exchange Rate as an Automatic Stabilizer	553
Discipline	554
Destabilizing Speculation	555
International Trade and Investment	
Policy Coordination	556
Are Fixed Exchange Rates Even an Option for Most Countries?	
Directions for Reform	
Summary	
Appendix: International Policy Coordination Failures	

,~

Optimum Currency Areas and the European Experience	565
How the European Single Currency Evolved	
What Has Driven European Monetary Cooperation?	
The European Monetary System, 1979–1998	
German Monetary Dominance and the Credibility Theory of the EMS	
The EU "1992" Initiative	
European Economic and Monetary Union	
The Euro and Economic Policy in the Euro Zone	
The Maastricht Convergence Criteria and the Stability and Growth Pact	
The European System of Central Banks	
The Revised Exchange Rate Mechanism	
The Theory of Optimum Currency Areas	
Economic Integration and the Benefits of a Fixed	
Exchange Rate Area: The GG Schedule	
Economic Integration and the Costs of a Fixed	
Exchange Rate Area: The LL Schedule	
The Decision to Join a Currency Area: Putting the GG and LL	
Schedules Together	
BOX: Gordon Brown and the Five Economic Tests	
What Is an Optimum Currency Area?	
CASE STUDY: Is Europe an Optimum Currency Area?	
The Future of EMU	
BOX: Adjusting to Asymmetric Shocks: Canada in the 2000s	
Summary	

The Global Capital Market: Performance and Policy Problems	594
The International Capital Market and the Gains from Trade	
Three Types of Gain from Trade	595
Risk Aversion	
Portfolio Diversification as a Motive for International Asset Trade	597
The Menu of International Assets: Debt versus Equity	598

International Banking and the International Capital Market	
The Structure of the International Capital Market	
Growth of the International Capital Market	
Offshore Banking and Offshore Currency Trading	
The Growth of Eurocurrency Trading	
The Importance of Regulatory Asymmetries	
Regulating International Banking	
The Problem of Bank Failure	
Difficulties in Regulating International Banking	
International Regulatory Cooperation	
CASE STUDY: When the World Almost Ended: Two Episodes	
of Market Turmoil	
How Well Has the International Capital Market Performed?	
The Extent of International Portfolio Diversification	
The Extent of Intertemporal Trade	
Onshore-Offshore Interest Differentials	
The Efficiency of the Foreign Exchange Market	
Summary	
2	
Developing Countries: Growth, Crisis, and Reform	621
Developing Countries: Growth, Crisis, and Reform Income, Wealth, and Growth in the World Economy	
Income, Wealth, and Growth in the World Economy The Gap Between Rich and Poor	
Income, Wealth, and Growth in the World Economy	
Income, Wealth, and Growth in the World Economy     The Gap Between Rich and Poor     Has the World Income Gap Narrowed Over Time?     Structural Features of Developing Countries	
Income, Wealth, and Growth in the World Economy     The Gap Between Rich and Poor     Has the World Income Gap Narrowed Over Time?     Structural Features of Developing Countries     Developing-Country Borrowing and Debt	
Income, Wealth, and Growth in the World Economy     The Gap Between Rich and Poor     Has the World Income Gap Narrowed Over Time?     Structural Features of Developing Countries     Developing-Country Borrowing and Debt     The Economics of Financial Inflows to Developing Countries	
Income, Wealth, and Growth in the World Economy     The Gap Between Rich and Poor     Has the World Income Gap Narrowed Over Time?     Structural Features of Developing Countries     Developing-Country Borrowing and Debt	
Income, Wealth, and Growth in the World Economy     The Gap Between Rich and Poor     Has the World Income Gap Narrowed Over Time?     Structural Features of Developing Countries     Developing-Country Borrowing and Debt     The Economics of Financial Inflows to Developing Countries     The Problem of Default     Alternative Forms of Financial Inflow	
Income, Wealth, and Growth in the World Economy     The Gap Between Rich and Poor     Has the World Income Gap Narrowed Over Time?     Structural Features of Developing Countries     Developing-Country Borrowing and Debt     The Economics of Financial Inflows to Developing Countries     The Problem of Default	
Income, Wealth, and Growth in the World Economy     The Gap Between Rich and Poor     Has the World Income Gap Narrowed Over Time?     Structural Features of Developing Countries     Developing-Country Borrowing and Debt     The Economics of Financial Inflows to Developing Countries     The Problem of Default     Alternative Forms of Financial Inflow     The Problem of "Original Sin"	
Income, Wealth, and Growth in the World Economy     The Gap Between Rich and Poor     Has the World Income Gap Narrowed Over Time?     Structural Features of Developing Countries     Developing-Country Borrowing and Debt     The Economics of Financial Inflows to Developing Countries     The Problem of Default     Alternative Forms of Financial Inflow     The Problem of "Original Sin"     The Debt Crisis of the 1980s	
Income, Wealth, and Growth in the World Economy     The Gap Between Rich and Poor     Has the World Income Gap Narrowed Over Time?     Structural Features of Developing Countries     Developing-Country Borrowing and Debt     The Economics of Financial Inflows to Developing Countries     The Problem of Default     Alternative Forms of Financial Inflow     The Problem of "Original Sin"     The Debt Crisis of the 1980s     Reforms, Capital Inflows, and the Return of Crisis     East Asia: Success and Crisis	
Income, Wealth, and Growth in the World Economy     The Gap Between Rich and Poor     Has the World Income Gap Narrowed Over Time?     Structural Features of Developing Countries     Developing-Country Borrowing and Debt     The Economics of Financial Inflows to Developing Countries     The Problem of Default     Alternative Forms of Financial Inflow     The Problem of "Original Sin"     The Debt Crisis of the 1980s     Reforms, Capital Inflows, and the Return of Crisis	

۰.

3

BOX. Why have beveloping Countries Accumulated	
Such High Levels of International Reserves?	638
The East Asian Economic Miracle	640
BOX: What Did East Asia Do Right?	641
Asian Weaknesses	641
BOX: The Simple Algebra of Moral Hazard	642
The Asian Financial Crisis	
Spillover to Russia	644
CASE STUDY: Can Currency Boards Make Fixed Exchange	
Rates Credible?	646
Lessons of Developing-Country Crises	648
Reforming the World's Financial "Architecture"	
Capital Mobility and the Trilemma of the Exchange Rate Regime	650
"Prophylactic" Measures	652
Coping with Crisis	
A Confused Future	653
CASE STUDY: China's Undervalued Currency	653
Understanding Global Capital Flows and the Global Distribution of Income:	
Is Geography Destiny?	656
Summary	659

Mathematical Postscripts	665
Postscript to Chapter 4: The Factor Proportions Model	666
Factor Prices and Costs	666
Goods Prices and Factor Prices	668
Factor Supplies and Outputs	669
Postscript to Chapter 5: The Trading World Economy	670
Supply, Demand, and Equilibrium	
Supply, Demand, and the Stability of Equilibrium	
Effects of Changes in Supply and Demand	
Economic Growth	674
The Transfer Problem	675
A Tariff	676
Postscript to Chapter 6: The Monopolistic Competition Model	678
Postscript to Chapter 21: Risk Aversion and International Portfolio Diversification	680
An Analytical Derivation of the Optimal Portfolio	
A Diagrammatic Derivation of the Optimal Portfolio	681
The Effects of Changing Rates of Return	
Credits	687

Credit	ts
--------	----

689

#### Index