PREFACE

Your economic life is intrinsically linked to the rest of the world. The goods you consume, the prices you pay for them, your employment prospects, the income you earn are all in part dependent on events taking place in the global arena as the U.S. economy becomes more and more economically linked to the global economy. International trade is a growing proportion of U.S. gross domestic product (GDP). The international flow of capital in and out of the country destroys and creates jobs. As U.S. firms move production facilities to China or Mexico, Japanese firms build factories here. The changes in the global economy, and consequently in your economic prospects, are growing at an ever faster pace. Time and space barriers are being dismantled as new communication and transportation technologies are making this a smaller and smaller world. In this new millennium, it is highly likely that the pace of change will continue to accelerate changing the present structure of the world's economy offering both challenges and opportunities. The World Bank predicts that by the end of the first quarter of this century, China will supersede the U.S. as the world's largest economy. The world's population will grow from the present six billion people to double that in the next century. The demands on the world's resources will grow accordingly, and so to will the danger to the global environment. While the future holds many challenges, it also offers many new opportunities. Technological advances may reduce our dependence on fossil fuels for energy needs, while communication advances continue to revolutionize the workplace. Your success in the future will be crucially dependent upon leading these changes as opposed to having the world pass you by.

As your economic prospects become more dependent on what is happening across the globe, you will need to be able to predict the effects of changes on your well-being. What would happen if further financial crises occur, as they did in Russia, East Asia and Mexico? What will happen to your job prospects as the Indian middle class becomes better educated and their government further opens up their economy? What will happen if the Chinese dismantle their inefficient state-owned enterprises? How will a resurgence of economic growth in Japan affect your income potential? Will continued economic integration in Europe lead to more or less open trade in global markets? Will disease and environmental degradation continue to erode Sub-Saharan economic prospects leading to political and social instability? There are so many questions that can be asked, more than we can actually ascertain at this time. The one constant is change and with that change so will the set of questions to be asked.
What to do amid all this uncertainty? We could, like an ostrich, bury our heads in the sand and let the world pass us by. We could build economic barriers to insulate ourselves from these events. If we follow that course of action, we might forgo some short term pain but at the expense of securing long term gains. England in the nineteenth century was the world’s economic powerhouse. It became complacent, and Germany and the U.S. capitalizing on new technologies in steel and chemicals overtook England by the close of the century. The status quo option will lead to economic decline. Would it not be better to anticipate the inevitable changes and capitalize on them? To do so, we need to know how these changes will manifest themselves and try to accurately predict their likely effects on our economy.

This course will provide you with an economic toolkit by which you can analyze the effects of economic change in the global economy. The source of these changes is broken into three categories: international trade, international flow of resources, and economic development. In each case, we will develop economic models which will allow you to predict the effects of changes in each category. But before we can master these models we need to lay down some groundwork. What do we mean by the global economy? How are national economies linked together? Who are the major and minor players? And, if we are going to try to predict the future, we need to know the present and how we got here.

The course will have five sections to it. First, we start the course with an overview of the global economy dividing nations into different groupings. This sets the stage for what is the global economy. Students are generally surprised by how different the majority of the world is from us. We will then have a quick overview of the history of the global economy, especially in the second half of twentieth century. At this point the student should have a feel for the global economy and how it has evolved.

The second section starts building our economic tool-kit. We will review major economic principles such as opportunity costs, production possibilities frontiers, and the workings of markets, to name a few. As we continue past this section, we will continue to add to the toolkit, but the majority of it will be in place. The following three sections will analyze different aspects of the global economy.

Section three will cover international trade and commercial policies. Does trade make us better off, or should we insulate ourselves from foreign competition? The answer to that question depends on your perspective. We will develop economic models explaining and examining
international trade. We will then use them to explain these perspectives. We will also discuss trade blocs, such as NAFTA and the EU, in this section.

Section four focuses on the international flow of productive resources. Of ever increasing importance is the international flow of capital. International investors have a greater variety of locations and instruments in which to invest. Their decision making can lead to fostering a region's growth or cause tremendous turmoil. Part and parcel to the discussion of the international flow of capital are international currency markets where exchange rates are determined. The forces which affect exchange rates and their consequences will also be part of this section. Examples include the Mexican Peso Crisis, the financial crisis in East Asia, Russia, and more recently in Argentina.

The course finishes with a presentation of economic development. Topics include the identification of the forces which allow a country to move from an agrarian to an industrial economy. Issues include the variety of pitfalls that may impede this process. At the end of this section, the student should be able to predict the effects of current events on the developmental aspirations of many developing countries. Throughout the course of the semester the student will be keeping a journal of current events. We will apply these economic tools to their discussion, and hopefully in the process, become more aware of the global community of nations and their economic interactions.