

**Summary**

**Chapter 8: International Economics: Basic Theory and Core Institutions**

*EQ: How do politics shape the global economy?*

* The doctrine of comparative advantage has allowed countries to make considerable gains from trade, with both states benefiting from the exchange.
* Nonetheless, many countries protect themselves from trade, in the hopes of developing domestic industry and becoming self-sufficient, using techniques like infant-industry protection, high tariffs, and non-tariff barriers.
* Foreign direct investment, portfolio investments, and bank deposits and lending make up three basic elements of international money, allowing individuals and firms to invest abroad.
* Different countries opt to use either fixed or flexible exchange rate systems, depending on which they think will benefit their domestic economies more.
* Multinational enterprises have a major impact on international political economy, both positive and negative.
  + Intra-firm trade and other financial flows can bring money into developing countries.
  + However, the drive to attract investment from MNEs can lead to a ‘race to the bottom’ and the creation of pollution havens.
* A variety of international institutions have arisen to foster and regulate international trade, including the ITO, GATT, and WTO.
* Some of these institutions, such as the IMF and the World Bank, have sought to accelerate development, but these have created controversy.
* In addition, states have forms numerous regional economic blocs, often via free trade agreements.