

CHAPTER OVERVIEW

1: Introductory Finance Issues- Current Patterns, Past History, and International Institutions

Economics is a social science whose purpose is to understand the workings of the real-world economy. An economy is something that no one person can observe in its entirety. We are all a part of the economy, we all buy and sell things daily, but we cannot observe all parts and aspects of an economy at any one time.

For this reason, economists build mathematical models, or theories, meant to describe different aspects of the real world. For some students, economics seems to be all about these models and theories, these abstract equations and diagrams. However, in actuality, economics is about the real world, the world we all live in.

For this reason, it is important in any economics course to describe the conditions in the real world before diving into the theory intended to explain them. In this case, in a textbook about international finance, it is very useful for a student to know some of the values of important macroeconomic variables, the trends in these variables over time, and the policy issues and controversies surrounding them.

This first chapter provides an overview of the real world with respect to international finance. It explains not only how things look now but also where we have been and why things changed along the way. It describes current economic conditions and past trends with respect to the most critical international macroeconomic indicators. In particular, it compares the most recent worldwide economic recession with past business cycle activity to put our current situation into perspective. The chapter also discusses important institutions and explains why they have been created.

With this overview about international finance in the real world in mind, a student can better understand why the theories and models in the later chapters are being developed. This chapter lays the groundwork for everything else that follows.

- [1.1: The International Economy and International Economics](#)
- [1.2: GDP, Unemployment, Inflation, and Government Budget Balances](#)
- [1.3: Exchange Rate Regimes, Trade Balances, and Investment Positions](#)
- [1.4: Business Cycles- Economic Ups and Downs](#)
- [1.5: International Macroeconomic Institutions- The IMF and the World Bank](#)

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