

Contents

<i>Preface</i>	ix
1 Some institutional background	1
1.1 International financial markets	1
1.2 National accounting relations	11
1.3 The central bank's balance sheet	15
2 Some useful time-series methods	17
2.1 Unrestricted vector autoregressions	18
2.2 The generalized method of moments	26
2.3 The simulated method of moments	29
2.4 Unit roots	31
2.5 Panel unit-root tests	39
2.6 Cointegration	49
2.7 Filtering	52
3 The monetary model	62
3.1 Purchasing-power parity	62
3.2 The monetary model of the balance of payments	65

3.3	The monetary model under flexible exchange rates	67
3.4	Fundamentals and exchange rate volatility	70
3.5	Testing monetary model predictions	73
	Problems	80
4	The Lucas model	82
4.1	The barter economy	83
4.2	The one-money monetary economy	88
4.3	The two-money monetary economy	92
4.4	An introduction to the calibration method	96
4.5	Calibrating the Lucas model	98
	Appendix: Markov chains	104
	Problems	106
5	International real business cycles	107
5.1	Calibrating the one-sector growth model	107
5.2	Calibrating a two-country model	118
6	Foreign exchange market efficiency	127
6.1	Deviations from UIP	128
6.2	Rational risk premia	136
6.3	Testing Euler equations	139
6.4	Apparent violations of rationality	143
6.5	The “peso problem”	146
6.6	Noise traders	152
	Problems	159
7	The real exchange rate	163
7.1	Some preliminary issues	164
7.2	Deviations from the “law of one price”	164
7.3	Long-run determinants of the real exchange rate	167

7.4	Long-run analyses of real exchange rates	170
	Problem	178
8	The Mundell–Fleming model	179
8.1	A static Mundell–Fleming model	179
8.2	Dornbusch’s dynamic Mundell–Fleming model	185
8.3	A stochastic Mundell–Fleming model	189
8.4	VAR analysis of Mundell–Fleming	194
	Appendix: Solving the Dornbusch model	200
	Problems	203
9	The new international macroeconomics	205
9.1	The Redux model	206
9.2	Pricing-to-market	224
	Problems	238
10	Target-zone models	240
10.1	Fundamentals of stochastic calculus	240
10.2	The continuous-time monetary model	243
10.3	Infinitesimal marginal intervention	245
10.4	Discrete intervention	250
10.5	Eventual collapse	252
10.6	Imperfect target-zone credibility	253
11	Balance-of-payments crises	256
11.1	A first-generation model	257
11.2	A second-generation model	262
	<i>Bibliography</i>	270
	<i>Author index</i>	277
	<i>Subject index</i>	279