

Contents

Preface	ix
Part 1 Foundations	1
1 An Overview of the Book	3
1.1 What Is International Macroeconomics?	4
1.2 The International Macroeconomics Toolkit	9
1.3 The Contents of this Book	10
1.4 Summary	15
2 Open-economy Macroeconomic Accounting	17
2.1 The Balance of Payments Accounts	18
2.2 Sub-accounts in the Balance of Payments	22
2.3 Basic BOP Facts for the United States	29
2.4 The NIPA in an Open Economy: Aggregate Identities	31
2.5 Sectoral Identities	37
2.6 Summary	41
3 Macroeconomic Influences on the Foreign Exchange Market	46
3.1 Exchange Rate Concepts	47
3.2 Supply and Demand for Foreign Exchange	50
3.3 Relative Prices of Domestic and Foreign Goods: The Real Exchange Rate	52
3.4 Relative Returns on Domestic and Foreign Assets: Interest Parity Conditions	63
3.5 Central Bank Intervention in the Foreign Exchange Market: Exchange Rate Regimes	70
3.6 Summary	77
Appendix 3.1 Properties of Logarithms	80
4 The Macroeconomic Framework	82
4.1 Production Structure and Economic Agents	84
4.2 Equilibrium in the Market for Financial Assets	85

4.3	Equilibrium in the Market for Domestic Goods	91
4.4	Equations and Unknowns: Imposing Additional Structure	100
4.5	Summary	108
Appendix 4.1	The Marshall–Lerner Condition	109
Appendix 4.2	The Framework in Log-Linear Form	110
Part 2	Fixed Exchange Rates	113
5	The Classical Gold Standard	115
5.1	Evolution of the International Gold Standard	116
5.2	Central Bank Behavior under the Gold Standard	120
5.3	Summary	127
6	Gold Standard Macroeconomics	129
6.1	Short-Run Macroeconomics under the Gold Standard	130
6.2	Short-Run Comparative Statics	139
6.3	The Long-run Model	145
6.4	The Gold Standard as an International Monetary System	148
6.5	Summary	155
Appendix 6.1	The Gold Standard with Zero Capital Mobility	157
7	The Bretton Woods System	159
7.1	Evolution of the Bretton Woods System	160
7.2	Modeling Soft Pegs with Imperfect Capital Mobility	164
7.3	The Bond Market Equilibrium (BB) Curve	167
7.4	Properties of the BB Curve	169
7.5	Summary	174
8	Macroeconomics under “Soft” Pegs and Imperfect Capital Mobility	177
8.1	Solving the Model	178
8.2	Comparative Statics	180
8.3	Bretton Woods as an International Monetary System	187
8.4	Summary	199
Appendix 8.1	Alternative Monetary Policy Regimes	202
9	Fixed Exchange Rates in a Financially Integrated World: Currency Crises and “Hard” Pegs	208
9.1	Soft Pegs with High Capital Mobility	209
9.2	Currency Crises	216
9.3	Financial Integration and Crises	219
9.4	Modern Versions of Hard Pegs	225
9.5	Soft Versus Hard Pegs: Some Policy Issues	228
9.6	Summary	233
Appendix 9.1	The Monetary Approach to the Balance of Payments (MABP)	236

Part 3 Floating Exchange Rates	239
10 Floating Exchange Rates I: Transitory Shocks	241
10.1 Analytical Framework	242
10.2 Solving the Floating Exchange Rate Model	245
10.3 Comparative Statics	252
10.4 Summary	265
Appendix 10.1 The Asset Market Approach to the Exchange Rate	268
Appendix 10.2 Algebraic Solution of the Log-linear Model	269
Appendix 10.3 Interest Rate Targeting under Floating Exchange Rates	270
11 Floating Exchange Rates II: Intermediate and Permanent Shocks	272
11.1 Anticipated Future Shocks	273
11.2 Multi-period Shocks	279
11.3 Permanent Shocks	284
11.4 Comparing Permanent and Transitory Shocks	291
11.5 Summary	296
12 Floating Exchange Rates III: Exchange Rate Dynamics	299
12.1 Asymmetric Adjustment in Goods and Asset Markets	300
12.2 The Dornbusch Overshooting Model	301
12.3 Comparative Statics	306
12.4 Generalizing the Model	310
12.5 Summary	315
Appendix 12.1 Proof that $(S_{t+1}/S_t) = \lambda(\tilde{S}/S_t)$	317
13 Long-run Equilibrium under Floating Exchange Rates	319
13.1 A Long-run Model	320
13.2 Solving the Long-run Model	325
13.3 Comparative Statics	327
13.4 Comparing the Short-run and Long-run Responses to Permanent Shocks	331
13.5 The Role of Long-run Inflation	333
13.6 Summary	338
Appendix 13.1 The Long-run Floating Rate Model in Log-linear Form	340
Appendix 13.2 Fixed Exchange Rates in the Long Run	342
14 Floating Exchange Rates with Short-run Price Flexibility	346
14.1 A “Flexprice” Model	347
14.2 Real Exchange Rate Dynamics	348
14.3 The Monetary Approach to the Exchange Rate	353
14.4 Currency Crises Revisited	358
14.5 Gradual Price Adjustment	364
14.6 Summary	369
15 Choosing an Exchange Rate Regime	372
15.1 Optimality Criterion I: Minimizing the Costs of Making International Transactions	373

15.2	Optimality Criterion II: Long-run Inflation Stabilization	377
15.3	Optimality Criterion III: Short-run Macroeconomic Stability	382
15.4	Weighing Optimality Criteria	389
15.5	Summary	391
Part 4 International Monetary Cooperation		395
16	The International Financial Architecture	397
16.1	The International Monetary System after Bretton Woods	399
16.2	The International Debt Crisis	400
16.3	Changes in the International Macroeconomic Environment in the 1990s	404
16.4	Proposals for Reforming the International Financial Architecture	409
16.5	Summary	414
17	G-8 Policy Coordination	416
17.1	Why Coordinate? Theory	417
17.2	Comparative Statics	426
17.3	Post-Bretton Woods International Policy Coordination among the G-8 Countries	430
17.4	The US Current Account Deficit in the 2000s	435
17.5	Summary	438
18	Monetary Unification	441
18.1	Economic Integration in Western Europe	442
18.2	European Monetary Integration	446
18.3	Monetary Union in West Africa	453
18.4	The Eastern Caribbean Currency Union	457
18.5	Summary	460
Part 5 The New International Macroeconomics		465
19	Intertemporal Issues in International Macroeconomics	467
19.1	A Simple One-Good Model	468
19.2	A Two-Good Model	476
19.3	Introducing the Government	480
19.4	Summary	485
Index		487