Contents

Preface	vii
Introduction	1
CHAPTER ONE The Economics of Real Exchange Rates	3
The Determinants of the Equilibrium Real Exchange Rate	5
A Classification of Real Exchange Rate Fundamentals	6
Examples of the Role of Real Exchange Rate Fundamentals	7
Misalignment of the Real Exchange Rate	9
The Case of Predetermined Nominal Exchange Rates	10
The Case of Freely Fluctuating Nominal Exchange Rates	11
The Case of Nonunified Nominal Exchange Rates	14
Notes	18
CHAPTER Two Dealing with Misalignment	
of the Real Exchange Rate	21
The Limits of Automatic Adjustment	22
Devaluation and Other Policy Alternatives	26
Nominal Devaluation	26
Are There Alternatives to Devaluations?	31
The Effectiveness of Devaluations: The Historical Evidence	34
Notes	39
CHAPTER THREE Conclusions	41
Equilibrium and Disequilibrium Real Exchange Rates	41
Costs of Real Exchange Rate Disequilibrium	44
costs of Real Exchange Rate Disequinorium	-11
Appendix	47
Alternative Definitions of the Real Exchange Rate	47
The Equilibrium Real Exchange Rate: A Brief Review	49
Measurement	52
Methods and Models	53
The Real Exchange Rate in a World of Floating	
Exchange Rates	56

Real Exchange Rate Appreciation and Devaluation Crises The Experience of Developing Countries The Causes of Devaluations Devaluation and Real Exchange Rates Models of Devaluation The Empirical Evidence Notes	61 62 65 66 69 77
Bibliography	79
Index	93