## **Contents**

Li	ist of Figures	xii	
List of Tables			
Pr	Preface		
Li	ist of Conference Participants	zviii	
1	Introduction Ralph C. Bryant, John Driffill and Richard Por	rtes 1	
-	1 Approaches to the Analysis of Policy Coordination	3	
	2 The Gains from Policy Coordination	6	
	3 The European Monetary System	9	
	4 North-South Interdependence	12	
SI	ECTION I APPROACHES TO THE ANALYSIS OF POLICY		
	COORDINATION	15	
2	The Complexity of Strategies and the Resolution of Conflict:	an	
	Introduction Ariel Rubinstein	17	
	1 Introduction	17	
	2 The Basic Model	18	
	3 The Machines Game	<b>\21</b>	
	4 Complexity	23	
	5 Examples	24	
	6 The Structure of Equilibrium in the Machines Game	26	
	7 A Characterisation of the Equilibrium Outcomes	28	
	8 Final Remarks	30	
	Discussion John Roberts	33	
	General Discussion	41	
3	Alternative Approaches to Dynamic Games Chaim Fershtma	n 43	
	1 Introduction	43	
	2 Definitions	44	
	3 The Different Aspects of Dynamic Interaction	47	
	4 Criticism of the Use of Differential Games	50	
	5 History-Dependent Strategies in Differential Games	51	
	Discussion Leonard J. Mirman	58	
	General Discussion	64	
	Overview of Section I. Willem H. Ruiter	66	

SE	ECTION II THE GAINS FROM POLICY COORDINATION	73
4	International Cooperation and Reputation in an Empirical Two-	
	Bloc Model David Currie, Paul Levine and Nic Vidalis	75
	1 Introduction	75
	2 Description of Minilink	78
	3 The Gains from Cooperation	82
	4 The Long-run Effects of Alternative Regimes	98
	5 The Sustainability of the Cooperative Reputational Policy	102
	6 Conclusions	109
	Appendix: The Two-country Control Problem	110
	Discussion Paul R. Masson	122
	General Discussion	126
5	International Policy Cooperation and Model Uncertainty Gerald	
	Holtham and Andrew Hughes Hallett	128
	1 Introduction	128
	2 The Policy Problem: Specification and Qualifications	131
	3 The Gains to Cooperation in Ten Models	134
	4 The Determinants of the Gains to Cooperation	147
	5 Choosing a Model for Policy Analysis	152
	6 Disagreement about the Model	159
	7 Conclusions	163
	Appendix A The Objective Function Specification	164
	Appendix B Dynamic Multipliers in Ten Models	165
	Discussion Gilles Oudiz	178
	General Discussion	183
	Overview of Section II Matthew B. Canzoneri	185
	ECTION III THE EUROPEAN MONETARY SYSTEM	191
6	Why the EMS? Dynamic Games and the Equilibrium Policy	
	Regime David Begg and Charles Wyplosz	193
	1 Introduction	193
	2 The Model	197
	3 The Free-Float Regime	201
	4 The EMS	203
	5 Capital Controls under a Free Float	212
	6 The Equilibrium Regime with Capital Controls	221
	7 Conclusions	223
	Appendix A Model Solution	224
	Appendix B Indifference Maps	226
	Appendix C Period One under Free Floating when Capital	225
	Controls are Anticipated in Period Two	228

		Λi
	Discussion William H. Branson	233
	General Discussion	236
7	Models of the EMS: is Europe a Greater Deutschmark Area?	
	Francesco Giavazzi and Alberto Giovannini	237
	1 Introduction	237
	2 Is the EMS an Asymmetric System?	238
	3 Why do Asymmetric Exchange-Rate Regimes Arise?	253
	4 Concluding Remarks: Why is the EMS an Asymmetric System?	260
	Appendix A Solution of the Model of Section 3.2	261
	Appendix B The Data	261
	Discussion Richard C. Marston	266
	General Discussion	271
	Overview of Section III Marcus H. Miller	273
	Overview of Section III marcus II, muer	2,5
	ECTION IV NORTH-SOUTH INTERDEPENDENCE	277
8	External and Domestic Debt Constraints of LDCs: a Theory with	
	a Numerical Application to Brazil and Mexico Daniel Cohen	279
	1 Introduction	279
	2 A Framework for Analysis	280
	3 A Comparison of Brazil's and Mexico's Adjustment over the Period 1983-5	289
	4 Conclusions: 1986 and after - Brazil and Mexico at the	20)
	Crossroads	297
	Discussion Jonathan Eaton	300
	General Discussion	306
	General Discussion	300
9	Protectionism and the Debt Crisis Sweder van Wijnbergen	307
	1 Introduction	307
	2 Trade Policy and the Transfer Problem: Static Aspects	309
	3 Intertemporal Aspects	319
	4 Conclusions	325
	Appendix Classical Unemployment with Endogenous Labour	
	Supply	327
	•••	. 331
	General Discussion	337
O	verview of Section IV Rudiger Dornbusch	338
<b>7.</b>	dex ·	345
n	UCA .	343