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Structural change, economic growth and adequate exchange rate adjustment are key challenges in the context of EU eastern enlargement as are consistent macroeconomic policies. The authors focus on sectoral adjustment across industries in catching-up countries and explain changes in the composition of output – this includes new aspects of the Chenery model. They describe and analyze the spatial pattern of specialization and adjustment in many countries. Theoretical and empirical analysis of foreign direct investment, innovation and structural change shed new light on economic dynamics in Old Europe and New Europe. As regards exchange rate dynamics both traditional aspects (such as the Balassa-Samuelson effect) and new approaches to understanding exchange rate developments are presented. Links between exchange rate changes and innovation are particularly emphasized.

Macroeconomic models of nominal exchange rates perform poorly. In sample, R2 statistics as high as 10 percent are rare. Out of sample, these models are typically out-forecast by a na‹ ve random walk. This paper presents a model of a new kind. Instead of relying exclusively on macroeconomic determinants, the model includes a determinant from the field of microstructure-order flow. Order flow is the proximate determinant of price in all microstructure models. This is a radically different approach to exchange rate determination. It is also strikingly successful in accounting for realized rates. Our model of daily exchange-rate changes produces R2 statistics above 50 percent. Out of sample, our model produces significantly better short-horizon forecasts than a random walk. For the DM/$ spot market as a whole, we find that $1 billion of net dollar purchases increases the DM price of a dollar by about 1 pfennig.

Using a comprehensive database on bank credit, covering 135 developing countries over the period 1960–2011, we identify, document, and compare the macro-economic dynamics of credit booms across low- and middle-income countries. The results suggest that while the duration and magnitude of credit booms is similar across country groups, macro-economic dynamics differ somewhat in low-income countries. We further find that surges in capital inflows are associated with credit booms. Moreover, credit booms associated with banking crises exhibit distinct macroeconomic dynamics, while also reflecting a potentially large deviation of credit from country fundamentals. These results suggest that low-income countries should remain mindful of the inter-linkages between financial liberalization, increased cross-border banking activities, and rapid credit growth.

Just as macroeconomic models describe the overall economy within a changing, or dynamic, framework, the models themselves change over time. In this text Stephen J. Turnovsky reviews in depth several early models as well as a representation of more recent models. They include traditional (backward-looking) models, linear rational expectations (future-looking) models, intertemporal optimization models, endogenous growth models, and continuous time stochastic models. The author uses examples from both closed and open economies. Whereas others commonly introduce models in a closed context, tacking on a brief discussion of the model in an open economy, Turnovsky integrates the two perspectives throughout to reflect the increasingly international outlook of the field. This new edition has been extensively revised. It contains a new chapter on optimal monetary and fiscal policy, and the coverage of growth theory has been expanded substantially. The range of growth models considered has been extended, with particular attention devoted to transitional dynamics and nonscale growth. The book includes cutting-edge research and unpublished data, including much of the author's own work.

This book looks at the PPP persistence puzzle, and econometric aspects of exchange rate dynamics and their implications. It also explores the importance of exchange rate dynamics in the pass-through effects (PTE) and the econometric aspects of the exchange rates dynamics linked to structural shocks on different economies.

This volume explores East Asia's macroeconomic experience in the 1980s and the economic impact of East Asia's growth on the rest of the world. The authors explore the causes of capital flows, changes in trade balances, and exchange rate fluctuations in East Asia and their effects on other countries. These fourteen papers

are organized around four themes: the overall determinants of growth and trading relations in the East Asian region; monetary policies in relation to capital controls and capital accounts; the impact of exchange rate behavior on industrial structure; and the potential for greater regional integration. The contributors examine interactions among exchange rate movements, trade balances, and capital flows; how government monetary policy affects capital flows; the effect of exchange rates on industrial structure, inventories, and prices; and the extent of regional integration in East Asia.

This book reflects the state of the art on nonlinear economic dynamics, financial market modelling and quantitative finance. It contains eighteen papers with topics ranging from disequilibrium macroeconomics, monetary dynamics, monopoly, financial market and limit order market models with boundedly rational heterogeneous agents to estimation, time series modelling and empirical analysis and from risk management of interest-rate products, futures price volatility and American option pricing with stochastic volatility to evaluation of risk and derivatives of electricity market. The book illustrates some of the most recent research tools in these areas and will be of interest to economists working in economic dynamics and financial market modelling, to mathematicians who are interested in applying complexity theory to economics and finance and to market practitioners and researchers in quantitative finance interested in limit order, futures and electricity market modelling, derivative pricing and risk management.

'News and Exchange Rate Dynamics' proposes an innovative taxonomy of news affecting exchange rates. It establishes a metrics for the impact on exchange rates movements. In doing so it provides the first results of an ongoing research activity on the economic, financial and non-financial determinants of infra daily fluctuations of exchange rates, whose ultimate goal is to explain the formation of market sentiment on one particular currency and the way it changes over time in response to the accumulation of new information. The authors provide a detailed description of the selection criteria of the news and how it impacts exchange rates.

This work examines the development of the determinants of the exchange rate system since the mid-1970s. It scrutinises the main theoretical models of exchange rate determination and assesses their empirical validity drawn from recent econometric results (based on cointegration methodology).

This article explores the similarities, differences, and implications from the 1970s-1980s experience for the macroeconomic dynamic that may arise from the 2008 price spike and subsequent recession. Role of monetary policy (deviations from Taylor rule) is assessed. This is an argument that has not been too prominent in public discourse about causes of the financial crisis or the policies undertaken to restore stability to financial markets and avoid an even deeper downturn than occurred. The ''misery index'' is compared across the past and recent macroeconomic events. Effects on agriculture of exchange rates are reviewed, effects dependent on currency values and interest rates that can change quickly and in unexpected ways.

"We address the exchange rate determination puzzle by examining how information is aggregated in a dynamic general equilibrium (DGE) setting. Unlike other DGE macro models, which enrich either preference structures or production structures, our model enriches the information structure. The model departs from microstructure-style modeling by identifying the real activities where dispersed information originates, as well as the technology by which information is subsequently aggregated and impounded. Results relevant to the determination puzzle include: (1) persistent gaps between exchange rates and macro fundamentals, (2) excess volatility relative to macro fundamentals, (3) exchange rate movements without macro news, (4) little or no exchange rate movement when macro news occurs, and (5) a structural-economic rationale for why transaction flows perform well in accounting for monthly exchange rate changes, whereas macro variables perform poorly. Though past micro analysis has made progress on results (1) through (3), results (4) and (5) are new. Excess volatility arises in our model for a new reason: rational exchange rate errors feed back into the fundamentals that the exchange rate is trying to track"--NBER website

The creation of the European Central Bank and the Euro have brought new challenges to EU integration and economic policy. This book looks into issues of monetary and factor market policies. The analysis presents new theoretical and empirical research on the current decline of the Euro. Issues regarding exchange rate policies and international economic relations are also addressed.

Inhaltsangabe:Introduction: As the foreign exchange rate market operates twenty-four hours a day and seven days a week it can be described as a global marketplace trading in continuous time. The importance of this market place on weal and woe of economies and agents cannot be overestimated. Long lasting disputes about exchange rate over- and under-evaluation between countries (as most prominently the case between China and the USA) and its implications for international trade, growth rates of economies, unemployment levels, financial money flows, and so forth illustrate this point. As reported by the Bank of International Settlement in its triennial Central Bank Survey 2007, covering 54 countries and jurisdictions, the daily average foreign exchange turnover as of April 2007 has reached a mind-staggering $3.21 trillion. This amount marks an increase of 69 percent compared to the $1.97 trillion three years earlier and highlights the still increasing importance of the exchange rate markets. The U.S. dollar is by far the most important currency as it is involved in 86 percent of all transactions amounting to some $2.7 trillion per day. This is by far bigger than the volume of U.S. international trade in goods and services which for the month April 2007 amounted to (imports + exports) $317.5 billion.1 Indeed, only 17 percent of exchange market turnover has been reported to occur with non-financial customer counterparties, while 43 percent of transactions occur between reporting dealers (i.e. the interbank market) and 40 percent occur between reporting and non-reporting financial institutions (e.g. hedge funds, mutual funds, pension funds, insurance companies). Accordingly, more than 2/3 of the turnover was traded as derivatives such as foreign exchange swaps, outright forwards, or options, while only 1/3 constituted spot rate transactions. These are important facts to consider when talking about forces of exchange rate determination. On ground of these figures one may reasonably explain why old-fashion standard models like the monetary model or purchasing power parity may only hold in the very long run and exchange rate movements may be much more subject to trades based on heterogeneous expectations incurred by investors, speculators and market makers. Particularly at the short-run exchange rates exhibit considerably greater volatility than macroeconomic time series leaving an impression of noisy and chaotic behavior. Throughout this work it [...]

How successful is PPP, and its extension in the monetary model, as a measure of the equilibrium exchange rate? What are the determinants and dynamics of equilibrium real exchange rates? How can misalignments be measured, and what are their causes?

What are the effects of specific policies upon the equilibrium exchange rate? The answers to these questions are important to academic theorists, policymakers, international bankers and investment fund managers. This volume encompasses all of the competing views of equilibrium exchange rate determination, from PPP, through other reduced form models, to the macroeconomic balance approach. This volume is essentially empirical: what do we know about exchange rates? The different econometric and theoretical approaches taken by the various authors in this volume lead to mutually consistent conclusions. This consistency gives us confidence that significant progress has been made in understanding what are the fundamental determinants of exchange rates and what are the forces operating to bring them back in line with the fundamentals.

We report findings from a survey of United States foreign exchange traders. Our results indicate that (i) technical trading best characterizes about 30% of traders, with this proportion rising from five years ago; (ii) news about macroeconomic variables is rapidly incorporated into exchange rates; (iii) the importance of individual macroeconomic variables shifts over time, although interest rates always appear to be important, and; (iv) economic fundamentals are perceived to be more important at longer horizons. The short run deviations of exchange rates from their fundamentals are attributed to excess speculation and institutional customer/hedge fund manipulation. Speculation is generally viewed positively, as enhancing market efficiency and liquidity, even though it exacerbates volatility. Central bank intervention does not appear to have a substantial effect, although there is general agreement that it increases volatility. Finally, traders do not view purchasing power parity as a useful concept, even though a significant proportion (40%) believe that it affects exchange rates at horizons of over six months.

Existe uma relação muito próxima entre variáveis macroeconômicas e a estrutura a termo da taxa de juros no Brasil. Caracterizamos esta relação utilizando a recente abordagem de macro-finanças adaptada para o caso de uma economia emergente. Podemos concluir que (i) a curva de juros possui informações adicionais às de diversas variáveis com relação ao crescimento futuro da economia; (ii) o poder de previsão é crescente com a durabilidade dos bens e é decorrente essencialmente das expectativas de variações futuras na taxa de curto-prazo; (iii) as variáveis cíclicas da economia (hiato do produto, taxa de inflação e variação do câmbio nominal) explicam até 53% da variação das taxas; (iv) o restante das variações, representado por fatores não-observáveis, parece estar relacionado à variação da aversão ao risco internacional e das expectativas de inflação e (v) a noção de grande vulnerabilidade externa da economia brasileira no período estudado é corroborada pelo papel relevante da variação do câmbio nominal, que explica até 41% da variação das taxas.

This paper uses New Open Economy Macroeconomics with micro--foundation as an analytical framework integrates the characteristics of imperfect competition market and anti-dumping behavior into the two country (home country and foreign country) model. The goal is to discuss the dynamic effect on different macroeconomic variables (e.g. consumption, output, price) if the home country executes anti-dumping duties when foreign countries engage in dumping behaviors. Through theoretical inference and simulation analysis, this paper discovers that when the dumping margin is lower, the consumption and output will show the phenomenon of mis-adjustment, and the price will appear to be undershooting by an anti-dumping duty shock. When the dumping margin is higher, consumption will present undershooting, the output will appear to be overshooting, and the price will present mis-adjusting or undershooting by an anti-dumping duty shock.

Recent research has revealed a wealth of information about the microeconomics of currency markets and thus the determination of exchange rates at short horizons. This information is valuable to us as scientists since, like evidence of macroeconomic regularities, it can provide critical guidance for designing exchange-rate models. This paper presents an optimizing model of short-run exchange-rate dynamics consistent with both the micro evidence and the macro evidence, the first such model of which we are aware. With respect to microeconomics, the model is consistent with the institutional structure of currency markets, it accurately reflects the constraints and objectives faced by the major participants, and it fits key stylized facts concerning returns and order flow. With respect to macroeconomics, the model is consistent with most of the major puzzles that have emerged under floating rates.

Dark matter accounts for 83 percent of the matter in the universe and plays a central role in cosmology modeling. This paper argues that an analogous form of dark matter plays a similarly important role in international macroeconomics. Exchange-rate dark matter is invisible, but its existence can be inferred from observations on real exchange rates and interest rates. I first show that dark matter is the dominant driver of short- and medium-term changes in real exchange rates for the G-7 countries; accounting for more than 90 percent of the variance at the five-year horizon. I then develop a model in which risk shocks account for dark matter's role as a driver of exchange-rate dynamics and other macro variables.

International Macroeconomic Dynamics provides extensive applications of important macroeconomic dynamic models to the international economy. For a long time, the study of macroeconomics has focused almost exclusively on a closed economy and downplayed the role of international transactions. Today, however, researchers recognize that one cannot fully understand domestic macroeconomic relationships without considering the global economy within which each country operates. Increasingly, economists are treating international transactions as an integral part of the macroeconomic system, and international macroeconomics has become an area of intensive research activity. International Macroeconomic Dynamics provides extensive applications of important macroeconomic dynamic models to the international economy. It adopts the main contemporary macroeconomic framework, the representative agent model, and develops a series of models of increasing complexity. The author considers both small and large economies and analyzes them in both deterministic and stochastic contexts. The emphasis is very much on the development of the analytical models; a novel feature is the extensive use of continuous-time stochastic methods. While the author applies the models to a range of important policy issues, particularly issues of fiscal policy, the reader is invited to view the analyses as blueprints for other applications.

This thesis examines the role of technological innovation in generating macroeconomic dynamics in open economies. Each chapter constitutes an original and independent contribution to the literature. In Chapter 1, I examine the behavioral responses of key macroeconomic variables in Canada to exogenous shocks to investment-specific technology. This is done by developing a stylized international real business cycle model which is simulated to explore its ability to shed new light on the dynamic behavior of the standard small open economy. The results indicate that this model can quantitatively replicate the key dynamic features of

the post-war Canadian economy, and thus shocks to investment-specific technology can be considered an important exogenous process for studying and understanding modern macroeconomic dynamics in small open economies. In Chapter 2, I demonstrate that a two-country flexible price dynamic general equilibrium model driven by shocks to technology, and with a localized distribution services sector can replicate the key dynamic features of the real exchange rate. In doing so, the paper identifies the importance of two key channels for real exchange rate dynamics. In particular, I show: (i) that shocks in the real sector are important contributors to movements in the real exchange rate, and (ii) that the endogenous wedge created by the distribution costs of traded consumer goods is a significant source of fluctuation for the real exchange rate, and the overall macro-economy. Finally, in chapter 3 I analyze a dynamic general equilibrium model with a mixture of fiscal deficits, stochastic endowment, and sovereign debts. It offers an environment in which a loss of confidence in the sustainability of the government's fiscal position creates an environment for currency crises. The evidence provided demonstrates that the Argentine government's decision to abandon the peg in 2002---following the default on its international debts, was a self-fulfilling outcome of agent's expectations based on the underlying economic environment. Moreover, I also show that in an essentially identical economic framework---where the equilibrium probability of default is low, the optimal action for the government would be to maintain the fixed exchange rate and issue new debts to finance the fiscal deficit.

This important new book builds upon the seminal work by Obsfeld and Rogoff, Foundations of International Macroeconomics and aims at providing a coherent and modern framework for thinking about exchange rate dynamics. With a wide range of contributions, this book is likely to be welcomed by the macroeconomics and financial community.

This dissertation explores modeling existing nonlinear dynamics in exchange rates and economic growth. Particularly, the three essays, herein, investigate the stability of the International Monetary Fund's Special Drawing Rights (SDR) and synchronicity of economic growth across provinces in China. The first essay empirically assesses the degree of fluctuations in the SDRs attributable to U.S monetary policy. In this vein, I contribute to the financial asset/exchange rate literature by identifying structural shocks to real-time U.S. output growth, inflation, and short-term interest rates. Moreover, I exploit the time-varying heteroskedasticity of the data without imposing a priori exclusion restrictions. Over the period 1981.Q1-2018.Q1, a contractionary U.S. monetary policy shock results in an immediate depreciation of the U.S. dollar value of the euro, Yen, and pound in the SDR basket. After the introduction of French and German Euros in 1999.Q1, all the currencies appreciated against the USD. Also, U.S. monetary policy contributes about 4% of the variations in the SDR basket's return. Chapter 2, explores the effects of U.S. monetary policy shocks on the value of SDRs during the 1981.M1 Ó3 1998.M12 and 1999.M1 Ó3 2016.M9 vintages. Unlike the first chapter, we test the data against different monetary policy indicators presented in the macroeconomics literature. To this end, we use a structural vector autoregression with identification through heteroskedasticity to identify the appropriate instruments of monetary policy. We find that the nominal exchange rates are insulated from U.S. policy shocksÓ4 the contribution does not exceed 15%. In both subsamples, policy easing induces an appreciation in the dollar. In the third chapter, we use a dynamic factor model with time-varying loading parameters and stochastic volatility to document significant evidence of time-varying synchronization of the regional growth dynamics in China. The correlation in cross-region economic growth performance increased during the recent global recession and declined post-recession, albeit still at a higher level than before 2008. While the large degree of synchronization of regional growth dynamics permits the central government (bank) to implement a uniform fiscal (monetary) policy, this also reduces China's ability to stymie the propagation of external shocks and instead increases systemic risks across regions.

Government spending on infrastructure has recently increased sharply in many emerging-market economies. This paper examines the mechanism through which public infrastructure spending affects the dynamics of the real exchange rate. Using a two--sector dependent open economy model with intersectoral adjustment costs, we show that government spending generates a non--monotonic U-shaped adjustment path for the real exchange rate with sharp intertemporal trade-offs. The effect of government spending on the real exchange rate depends critically on (i) the composition of public spending, (ii) the underlying financing policy, (iii) the intensity of private capital in production, and (iv) the relative productivity of public infrastructure. In deriving these results, the model also identifies conditions under which the predictions of the neoclassical open economy model can be reconciled with empirical regularities, namely the intertemporal relationship between government spending, private consumption, and the real exchange rate.

Market Imperfections and Macroeconomic Dynamics is based upon a collection of papers originally presented at the 5th Theory and Methods in Macroeconomics (T2M) meeting in Paris, France, 2002. The contributions in this volume focus on a central theme: the aggregate dynamic consequences of market imperfections. Such effects are of great interest to researchers in macroeconomics as these imperfections play a primary role in the persistence of aggregate output, the characteristics of the business cycles and the interactions of agents over time. Incorporating up-to--date techniques and methods, these contributions exemplify the remarkable progress made by macroeconomists in tackling these issues. The primary market for Market Imperfections and Macroeconomic Dynamics is academic researchers in economics and graduate students specializing in macroeconomics. Divisions of economic studies in public administration and in financial organizations will also find this book beneficial.

In the last few decades exchange rate economics has seen a number of developments, with substantial contributions to both the theory and empirics of exchange rate determination. Important developments in econometrics and the increasingly large availability of high-quality data have also been responsible for stimulating the large amount of empirical work on exchange rates in this period. Nonetheless, while our understanding of exchange rates has significantly improved, a number of challenges and open questions remain in the exchange rate debate, enhanced by events including the launch of the Euro and the large number of recent currency crises. This volume provides a selective coverage of the literature on exchange rates, focusing on developments from within the last fifteen years. Clear explanations of theories are offered, alongside an appraisal of the literature and suggestions for further research and analysis.

In this paper, we investigate the relationship between real exchange rate dynamics and financial market imperfections. For this purpose, we first construct a New Open Economy Macroeconomics (NOEM) model that incorporates international staggered

loan contracts as a simple form of the financial market imperfections. Recent empirical studies show that such staggered loan contracts are prevalent in the US, UK, and Japan and direct shocks to the bank lending interest rate (risk premium shocks) are major drivers of business cycle dynamics. Simulation results only with such a financial market friction and a risk premium shock can generate persistent, volatile, and realistic hump-shaped responses of real exchange rates, which have been thought very difficult to reproduce in standard NOEM models. This implies that these financial market developments can possibly be a major source of real exchange rate fluctuations.--Author's description.

The paper develops a model of exchange-rate and current-account determination for a small economy peopled by infinitely lived, utility-maximizing households. In this setting, a central-bank purchase of foreign exchange has no real effects when central-bank foreign reserves earn interest at the world rate and the proceeds are returned to the public. In contrast, an increase in the monetary growth rate does have real effects, even in the long run. The model developed here implies that an increase in government spending may lead to a surplus on current account. The external adjustment process predicted by the model is one in which consumption, real balances, anti external assets all rise or fall simultaneously

Variations in the foreign exchange market influence all aspects of the world economy, and understanding these dynamics is one of the great challenges of international economics. This book provides a new, comprehensive, and in-depth examination of the standard theories and latest research in exchange-rate economics. Covering a vast swath of theoretical and empirical work, the book explores established theories of exchange-rate determination using macroeconomic fundamentals, and presents unique microbased approaches that combine the insights of microstructure models with the macroeconomic forces driving currency trading. Macroeconomic models have long assumed that agents---households, firms, financial institutions, and central banks--all have the same information about the structure of the economy and therefore hold the same expectations and uncertainties regarding foreign currency returns. Microbased models, however, look at how heterogeneous information influences the trading decisions of agents and becomes embedded in exchange rates. Replicating key features of actual currency markets, these microbased models generate a rich array of empirical predictions concerning trading patterns and exchange-rate dynamics that are strongly supported by data. The models also show how changing macroeconomic conditions exert an influence on short-term exchange-rate dynamics via their impact on currency trading. Designed for graduate courses in international macroeconomics, international finance, and finance, and as a go-to reference for researchers in international economics, Exchange-Rate Dynamics guides readers through a range of literature on exchange-rate determination, offering fresh insights for further reading and research. Comprehensive and in-depth examination of the latest research in exchange-rate economics Outlines theoretical and empirical research across the spectrum of modeling approaches Presents new results on the importance of currency trading in exchange-rate determination Provides new perspectives on long-standing puzzles in exchange-rate economics End-of-chapter questions cement key ideas

"We develop a stochastic, general equilibrium, two-country model of trade and macroeconomic dynamics. Productivity differs across individual, monopolistically competitive firms in each country. Firms face a sunk entry cost in the domestic market and both fixed and per-unit export costs. Only relatively more productive firms export. Exogenous shocks to aggregate productivity and entry or trade costs induce firms to enter and exit both their domestic and export markets, thus altering the composition of consumption baskets across countries over time. In a world of flexible prices, our model generates endogenously persistent deviations from PPP that would not exist absent our microeconomic structure with heterogeneous firms. It provides an endogenous, microfounded explanation for a Harrod-Balassa-Samuelson effect in response to aggregate productivity differentials and deregulation. Finally, the model successfully matches several moments of U.S. and international business cycles"--NBER website

Competitiveness is a notoriously slippery concept. This volume, featuring a galaxy of economic stars, lends some much-needed precision to the term and the debate over its determinants. Barry Eichengreen, University of California, Berkeley, US This book combines currency matters with competitiveness considerations, with a view to raising the understanding of exchange rate dynamics and to analysing the role of exchange rates in reinforcing economic competitiveness. The overall focus is on highlighting the link between currency developments and the real side of the economy. From a regional perspective, the contributions centre on developments in Central, Eastern and South-eastern Europe and thus put a special emphasis on aspects of transition and convergence. More specifically, the book addresses key issues of financial globalization and global imbalances; the role of macroeconomic fundamentals in exchange rate economics; the role, objectives and challenges of regional monetary unions; exchange rate dynamics in transition economies and the competitiveness of catching-up countries. It also addresses the structural aspects of competitiveness and the significance of qualitative and quantitative aspects of competitiveness. Offering the views of eminent academics and professionals, this book will be of great interest to economists and central bankers as well as to international organizations, universities and research institutes.

Suitable for students and researchers seeking coverage of the developments in macroeconomics, this title lays out the core ideas of modern macroeconomics and its links with finance. It presents the simplest general equilibrium macroeconomic model for a closed economy, and then gradually develops a comprehensive model of the open economy.

Until now, thinking on open economy macroeconomics has been largely schizophrenic. When it comes to analyzing exchange rate dynamics, an empirically-minded economist abandons modern current account models which, while theoretically coherent, fail to address the awkward reality of sticky nominal prices. In this paper we develop an analytically tractable two-country model that marries a full account of dynamics to a supply framework based on monopolistic competition and sticky prices. It offers simple and intuitive predictions about exchange rates and current accounts that sometimes differ sharply from those of either modern flexible-price intertemporal models, or traditional sticky-price Keynesian models. The model also leads to a novel perspective on the international welfare spillovers of monetary and fiscal policies.