Economic Interdependence Flexible Exchange Rates


TRADE AND FINANCIAL INTERDEPENDENCE UNDER FLEXIBLE EXCHANGE RATES: THE PACIFIC AREA

A growing number of countries are adopting flexible exchange rate regimes because flexibility offers more protection against external shocks and greater monetary independence. Other countries have made the transition under disorderly conditions, with the sharp depreciation of their currency during a crisis. Regardless of the reason for adopting a flexible exchange rate, a successful transition depends on the effective management of a number of institutional and operational issues. The authors of this Economic Issue describe the necessary ingredients for moving to a flexible regime, as well as the optimal pace and sequencing under different conditions.

Policy Interdependence Under Flexible Exchange Rates

Exchange Rate Management: Theory and Evidence

GAO sponsored a symposium of specialists on exchange rate behavior. The seminar participants addressed the yen-dollar exchange rates and analyzed the implications of floating exchange rates and economic interdependence on the conduct of national macroeconomic policy and the future of the international financial system. GAO found that it is questionable whether some policy to manage exchange rates can mitigate or reverse the adverse economic effects of exchange rate behavior. One analyst noted that there are alternative definitions of exchange rate overvaluation and several plausible sources of overvaluation. The limits to research in exchange rate behavior partially explain the disagreement over exchange rate management policy, and forecasting long-range exchange rates has not been successful. Although the symposium participants agreed that floating exchange rates cannot insulate an open economy from external economic disturbances or contain domestic disturbances within a single economy, they agreed that flexible exchange rates are superior to fixed rates. Panelists also agreed that policies aimed at countering misaligned exchange rates will have limited success if national macroeconomic policies differ markedly. Furthermore, a policy that addresses only the exchange rate, without addressing monetary and fiscal policies, can have only limited success.
With the loss of Soviet control in Central and Eastern Europe, as well as the move toward economic liberalization in many developing countries, a huge increase in the number of convertible currencies in the world has occurred. A key aspect of the management of these currencies involves their relationships with the world economy, which is determined.

We analyze in this paper how the mutual dependence of private sector expectations in different countries on one another influences the stability of fixed exchange rate regimes. The crisis probabilities of countries trading with one another are interdependent because wage setters react to an imminent loss of international competitiveness stemming from an increase in the crisis probability of a trading partner. If a currency crisis in one country is perceived to be increasingly likely, the probability of devaluation of its trading partners' currencies to restore their international competitiveness rises as well. Thus, not only actual devaluations but also an increasing crisis probability may trigger currency crises elsewhere. We show that not only fundamental weaknesses but also spontaneous shifts in market sentiment may play a role in precipitating currency crises.

The European Monetary System And European Monetary Union

Supply Shocks and the Interdependence of Macroeconomic Stability Under Flexible Exchange Rates

The paper was prepared for the NBER-IMF conference on Exchange Rate Policy and Interdependence. It reviews the experience with flexible exchange rates and the main policy alternatives that have been suggested. The theoretical part develops a modern open economy macro model with an emphasis on capital mobility, real and nominal wage stickiness and expectations. The impact of disturbances is discussed in terms of the underlying structure, in particular, the relative role of real and nominal inflexibility. Among the main policy alternatives the paper reviews the McKinnon proposal for world monetarism, and the band proposal. Both of these schemes are found unsatisfactory in coping with the chief problem of the current systems namely how to cope with the transition to low inflation. The alternative of capital controls, likewise, would not avoid the adverse consequences of monetary stabilization it would only influence the particular details of the
International Finance Discussion Papers

The third and final volume resulting from a project on international and monetary aspects of economic reform in formerly communist countries. The idea was to have economists from the west and from the target countries hammer out an agreement at least on what the key issues were, if not appropriate policy measures to address them. The 18 reports cover fixed versus flexible exchange rates, pegging exchange rates as an anti-inflation strategy, issues for managing exchange rates, currency areas and currency boards, and experiences from the emerging market economies. The first two volumes consider monetary stability and capital controls. No index. Annotation copyrighted by Book News, Inc., Portland, OR

Aspects of International Economic Interdependence Under Flexible Exchange Rates

Floating Exchange Rates in an Interdependent World

Makroökonomik flexibler und fester Wechselkurse

Theorie und Empirie flexibler Wechselkurse


Makroökonomik

Since the 1985 Plaza Accord, trade, investment and economic interdependence among the Asian economies has increased, while reliance on the US has fallen. In the light of this, Kwan considers the possibility of forming a yen bloc in the region.

International Economic Interdependence, Patterns of Trade Balances and Economic Policy Coordination


Political Economy of International Monetary Interdependence

Exchange Rate Regimes and Policy Interdependence

International Affairs

In response to a congressional request, GAO examined the role of government policy in determining exchange rates and the role of floating exchange rates in an interdependent world economy. The analysis was focused on: (1) the process of exchange rate determination, particularly the yen-dollar rate and the role of Japanese Government actions; (2) the constraints that international economic interdependence impose on economic policy; and (3) alternatives to the floating exchange rate system. According to some analysts, the floating exchange rate system is not an adequate method to facilitate the growth of world trade and investment. Some governments, especially Japan, are alleged to exert improper influence over exchange rates, while the United States does not exert enough influence. While appreciation of the dollar from 1980 to 1983 lowered the inflation rate, it also reduced the gross national product and caused the loss of over a million
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jobs. GAO found no support for charges that the Japanese Government pursued a policy to deliberately undervalue the yen relative to the dollar. Any intervention undertaken by that government was aimed at strengthening rather than weakening the yen. However, Japan could do more to facilitate greater international use of the yen. GAO found that exchange rates are affected by the international balance of trade, capital flows among nations, differences between countries' national economic policies and economic conditions, and perceived political risks and expectations. The complications of interdependence and the limits to current understanding of exchange rate behavior have prevented a consensus on the advisability of changing the current system. However, the interdependence of national economies constrain the range of domestic economic policies that the United States can adopt.

Exchange-rate Policies For Emerging Market Economies

The subject of this book is the kind of economic interaction and interdependence that has arisen among nations in the contemporary world economy, the nature and significance of the pattern of trade balances that have resulted from them, and the question of what, if anything, should be done by national governments about that pattern. The need for international coordination of economic policies is also investigated.

A VAR Analysis of Economic Interdependence

When the European Monetary System (EMS) was created in 1978, economists on both sides of the Atlantic predicted its inevitable and early failure. But today EMS is alive and well, continuing to defy conventional economic wisdom. Professors Fratianni and von Hagen address three questions raised by the success of EMS: how it was created, how it works, and how it may evolve into a full-fledged monetary union. They answer these questions in the context of international economics, explaining why countries with very different rates of inflation might be willing to link their currencies and exploring the choice between a currency union, in which several countries adopt the same money, and an exchange-rate union. They also seek to understand whether members of the European Community should all adopt the same currency. If so, what kind of adjustment process would be best - a gradual transition or a fast one? Their presentation is always clear and evenhanded, a model of empirical research and theoretical sophistication. This is an essential book for scholars of European integration in particular and of international political economy in general.

Flexible Exchange Rates and Interdependence

This Handbook adopts a traditional definition of the subject, and focuses primarily on the explanation of international transactions in goods, services, and assets, and on the main domestic effects of those transactions. The first volume deals with the "real side" of international economics. It is concerned with the explanation of trade and factor flows, with their main effects on goods and factor prices, on the allocation of resources and income distribution and on economic welfare, and also with the effects on national policies designed explicitly to influence trade and factor flows. In other words, it deals chiefly with microeconomic issues and methods. The second volume deals with the "monetary side" of the subject. It is concerned with the balance of payments adjustment process under fixed exchange rates, with exchange rate determination under flexible exchange rates, and with the domestic ramifications of these phenomena. Accordingly, it deals mainly with economic issues, although microeconomic methods are frequently utilized, especially in work on expectations, asset markets, and exchange rate behavior. For more information on the Handbooks in Economics series, please see our home page on http://www.elsevier.nl/locate/hes

Spreading Currency Crises

An Intertemporal Version of Mundell's Two-country Flexible Exchange Rates Model with Disequilibrium Microfoundations

Flexible Exchange Rates and Interdependence

Macroeconomic Policy and Economic Interdependence

The contributors examine the conduct and consequences of national macroeconomic policy in a world of economically independent countries. The book's main themes include the effect of deregulation and financial innovation and of budget deficits on monetary policy, the role of exchange rates in the international transmission of disturbances of a monetary or fiscal origin, the effectiveness of price controls in moderating the economic cost of deflationary macroeconomic policies and the implications of cooperative versus non-cooperative approaches to policy under conditions of economic interdependence.

An Intertemporal Version of Mundell's Two-country Flexible Exchange Rates Model with Disequilibrium Microfoundations
Monetary Independence Under Flexible Exchange Rates

FLEXIBLE EXCHANGE RATES AND INTERDEPENDENCE

Strategien der Wechselkurspolitik

A growing number of countries are adopting flexible exchange rate regimes because flexibility offers more protection against external shocks and greater monetary independence. Other countries have made the transition under disorderly conditions, with the sharp depreciation of their currency during a crisis. Regardless of the reason for adopting a flexible exchange rate, a successful transition depends on the effective management of a number of institutional and operational issues. The authors of this Economic Issue describe the necessary ingredients for moving to a flexible regime, as well as the optimal pace and sequencing under different conditions.

Monetary Interdependence Under Alternative Exchange-rate Regimes

Implications of Economic Interdependence and Exchange Rate Policy on Endogenous Wage Indexation Decisions

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