Index

Agricultural commodity prices, 22, 72
Appreciation
  Argentinian, 162
  Chilean, 108-109, 110-112
  and competitiveness, 8, 17, 19, 21-22, 161, 210
  and disinflation, 160-163
dollar see Dollar appreciation
  expectations as to, 105
  and inflation, 75, 78
  and investment, 105
  and risk premium, 69
  and saving behavior, 104
  and standard of living, 162
  and unemployment, 210
Argentina
  current account deficit, 101
  debt problems of, 101-102, 118, 120-122, 135
  exchange rate, 118, 120, 162
  external debt, 118, 120-122, 135
  financing of capital flight, 93, 101, 102, 118, 120-122, 135
  inflation in, 120
  interest rates, 151
Artus, J., 39
Balanced budget, 194, 199
Barro, R., 106
Belgium, debt-income ratio of, 172
Bergsten, C. F., 27, 77
Blanchard, O. J., 42, 45, 195
Bond markets, international, 29, 157-158
Bond portfolio, international, 11-12
Bonds, government, 185, 187-188, 195
Bradley, Senator Bill, 10
Brazil
  budget deficits, 113-114, 115, 121-122
  consumption in, 116
  current account deficits, 102, 115
  debt problems of, 102, 113-118, 121-122, 145, 159-160
  employment in, 94-95
  exchange rate, 116-117, 121
  external debt, 108, 113-118, 121-122, 145
  financing of capital flight, 117
  import volume, 117, 142-143
  interest rates, 151
  investment in, 116
  subsidies in, 115-116
tourist allowances, 115
Bretton Woods system, 28
Bubbles, 7, 23-24, 29, 41-43, 75
Budget deficits, 152-154
  anticipation of future deficits, 195-196
  Brazilian, 113-114, 115, 121-122
  British, 172, 208
  Chilean, 112
  and current account deficits, 115
  and depreciation, 154
  dynamic constraint, 200
  European, 171-202
  and exchange-rate-oriented monetary policy, 13, 107
  and fiscal policy, 199
  German, 171
  and inflation, 154, 185-191, 202
  and interest rates, 106, 183, 197-198
  intertemporal constraint, 105-106, 181, 183, 200
  Mexican, 135, 145
  and private saving behavior, 104
  and standard of living, 106
  and tax smoothing, 106-107
  transitory deficits, 182
  U.S., 17
  write-off of, 175-176, 183-184
Calvo, G., 109
Capital flows, 11, 28
  Argentinian, 93, 101, 102, 118, 120-122, 135
  Brazilian, 117
  Chilean, 110, 113
  and dollar overvaluation, 4-5
  and external debt, 135
  full employment accumulation, 196-197
  into Latin America, 21, 99, 101, 138
  Mexican, 135-136
  restrictions on, 80-81
  stock demand for, 105
  U.S., 4, 23, 30
Carter, President Jimmy, 78
Chile
  appreciation in, 108-109, 110-112
  budget deficits, 112
  capital flows into, 110, 113
  consumption in, 109-112
  current account deficits, 102
  debt problems, 102, 108-113, 122, 145
  exchange rate, 108-109, 110-112, 156
Chile (cont.)
- external debt, 108–113, 122, 145
- import volume, 110–111
- inflation in, 108
- interest rates, 151, 156
- investment spending in, 109–112
- saving behavior, 111
- trade deficits, 136
- unemployment in, 108

Clark, Colin, 183, 185
Cline, William, 140

Commodity prices, 22, 72
- and dollar appreciation, 7–8, 72, 91
- import prices, 7–8
- and LDCs, 70, 72–73, 91, 143
- and wages, 73

Competitiveness, and exchange rate appreciation, 8, 17, 19, 21–22, 161, 210

Consumer durable purchases, 103, 104, 125–126, 136

Consumption
- Brazilian, 116
- Chilean, 109–112
- and current account deficits, 103–104
- and money demand, 194

Corbo, V., 108

Credit rationing, effects of, 140
Crowding out, 23, 192–197, 221
Currency debt, domestic and foreign, 78
Currency speculation, 11, 32, 76
Currency substitution, 5, 11, 76

Current account deficits, 81, 103, 152
- Argentinian, 101
- Brazilian, 102, 115
- and budget deficit, 115
- Chilean, 102
- and debt-export ratio, 89
- and depreciation, 162
- and dollar appreciation, 10
- and exchange rates, 27, 37
- and external debt, 102, 121
- and investment, 121
- Latin American, 90
- U.S., 18, 21

Davies, G., 226
Debt burden theory of inflation, 185, 187, 190–191
Debt dynamics theory, 137, 173–174
Debt-export ratio, 89–91, 137
Debt finance, 106–107, 156
- and inflation, 190
- and real depreciation, 159–160
- Debt-income ratio, 89, 172–174, 181–182, 200
- Debt liquidation, Keynes-Clark model of, 185–190
- Debt maturity, 187–188
- Debt problems of LDCs, 88–122, 132–149.
  See also names of specific countries
- Debt servicing
  by European countries, 44, 175, 181, 189
  by LDCs, 88, 91–93, 98, 114, 132, 138–139, 141, 145
- Demand for goods
  in LDCs, 92–93
- price elasticity of, 65–66
- and unemployment, 169–170

Depreciation
- British currency, 212
- and budget deficits, 154
- and current account deficits, 162
- and debt finance, 159–160
- and disinflation, 161–162
- dollar (see Dollar depreciation)
- and employment, 94
- future expectations as to, 113, 163
- German currency, 18
- and indexation linkages, 93–94
- and inflation, 155
- and investment, 104–105
- and risk premium, 69
- and standard of living, 62

Depression, in Latin America, 92
Deregulation, effect of, 21
Diaz, Alejandro C., 109
Disinflation, 156, 206–207, 213
- and appreciation, 78, 160–163
- and depreciation, 160–163
- and exchange rates, 30
- and interest rates, 164
- in U.S., 12

Dollar appreciation, 4, 18, 197
- causes of, 23–25
- and commodity prices, 7–8, 72, 91
- and current account deficits, 10
effects of, 21–23, 47–50
- and fiscal policy, 6
- and inflation, 7–9, 21–23
- and LDC debt, 90–91, 122, 136
- and monetary policy, 5, 11
- overvaluation (see Dollar overvaluation)
persistence of, 7
- and prices, 7–8
rate of, compared to other currencies, 7
and trade balance, 10
Dollar depreciation, 4, 17, 27
and nominal interest rates, 5–6
Dollar overvaluation, 17, 24
and capital flows, 4–5
and domestic production, 9–10
and interest rates, 28
and manufacturing, 22–23
and unemployment, 28
and wage-price setting, 21
Dornbusch, R., 196

Employment
and anticipation of future budget deficits, 195–196
in Brazil, 94–96
and depreciation, 94
and exchange rates, 63–68
and fiscal expansion, 68
full, and debt-financed deficits, 196–197
and LDC debt, 92–93, 145–146
manufacturing, decline in, 23
in Mexico, 95
and monetary expansion, 68
special programs, 226–229
two-tier system, 230
unemployment (see Unemployment)
U.S., 23
Equity, and LDC debt problems, 138
Europe
budget deficits, 171–202
fiscal policy, 171
unemployment, 13, 28, 168–171
Exchange appreciation. See Appreciation
Exchange depreciation. See Depreciation
Exchange rate, 25, 27–30, 75
Argentinian, 118, 120
band proposal, 52–53, 77
Brazilian, 116–117, 121
and budget deficits, 107, 196
Chilean, 108–109, 110–112, 156
and current accounts, 27, 37
current rate, 6, 32, 37
determination, 34–41
and disinflation, 30
and employment, 63–68
equilibrium and disequilibrium, 6, 31–55, 113
expectation-based, 38–40, 73–75, 196
and fiscal policy, 29, 67, 224–225
fixed and quasi-fixed, 76, 78, 80, 155
flexible (see Flexible exchange rates)
"fixed" rates, 75–76
guarantees, 107
indeterminacy, 32
and inflation, 3, 7–9, 49, 60, 75, 153, 161–162
and interest rates, 63–68, 69–70
and investment, 104–105
and monetary policy, 3–4, 6–7, 11–13, 29, 76, 80, 225
movements, 3–4, 12, 24, 28, 68, 77
pegged, 76
and portfolio balance, 69
psychological theory of fluctuations, 32
real rate changes, 3–4, 5, 7–10, 67–68, 152
and real wage rigidity, 79
and stabilization programs, 67, 155, 157, 163
and sterilized intervention, 12
and trade balance, 10, 27
U.S. real rate, 3–4
and wage levels, 62–68
and wealth distribution, 69–70
welfare economics of disequilibrium rates, 113
Exchange rate targets, 12, 13, 18, 29, 77, 151, 156, 163
Export performance, and economic growth, 141–144
Export prices, and dollar appreciation, 8, 19
Export promotion, by LDCs, 139
Export volume
and interest rates, 89–90, 91, 137, 140
Latin American, 21, 90
U.S., 19
External debt
of Argentina, 118, 120–122, 135
of Brazil, 108, 113–118, 121, 122, 145
and budget deficits, 154
and capital flight, 135
of Chile, 108–113, 122, 145
and current deficits, 102, 121
defaulting on, 132
and interest rates, 112, 114, 137
history, 131–132
Latin American, 90, 98–99
optimal level of, 118
Extraneous beliefs, 45–47
Federal Reserve system, 48, 76, 218
Feldstein, Martin, 194
Fiscal policy, 17, 23, 176, 177, 194, 199
and budget deficits, 199
and capital mobility, 80
and dollar appreciation, 6
and employment, 68
European, 171, 199
and exchange rates, 29, 67, 224–225
future expansion, effects of, 196
and inflation, 214–219
and interdependence, 228
and interest rates, 7, 25
investment-based, 193–194
and LDC debt, 92–93
and monetary policy, 224–225
OECD countries, 6
and unemployment, 210, 213–230
U.S., 5–6, 197–198
Fleming-Mundell model, 35
Flexible exchange rates
advantages of, 31
failure of, 27–28, 32–33
in inflation stabilization, 9, 60, 75, 80, 161, 162
and interdependence, 59–81
limiting flexibility, 75–76, 77
and macroeconomic stability, 32–33, 60
and purchasing power parity, 3–7, 28, 155
France, debt servicing by, 44
Frankel, J., 37, 195
Friedman, B., 195
Friedman, M., 31, 32
Future expectations
as to appreciation, 105
as to budget deficits, 195–196
as to depreciation, 113, 163
and exchange rate testing, 38–40
and interdependence, 73–75
Government budget deficits. See Budget deficit
Great Britain
budget deficit, 172, 208
Committee on National Debt and Taxation, 176, 189
currency depreciation, 212
debt-income ratio, 220
debt servicing by, 189
economic growth, 212
fiscal policy, 17
inflation in, 205, 207
recession in, 211, 212
unemployment, 205–230
Hacche, G., 39
Harberger, A., 110
Henderson, D., 43, 51
Import duties, 10
Import prices
and dollar appreciation, 7–8
and investment goods, 105
Import substitution, by LDCs, 139, 142, 143
Import surcharge, 27
Import volume
Brazilian, 117, 142–143
Chilean, 110–111
Latin American, 142–143, 145
U.S., 19
Incomes policy, 81, 219
Indexation
in Chile, 108
and currency devaluation, 93–94
and inflation, 108, 159
Inflation
and appreciation, 75, 78
Argentinian, 120
British, 205, 207
and budget deficits, 154, 185–191, 202
Chilean, 108
debt burden theory of, 185, 187, 190–191
and debt finance, 190
and depreciation, 155
disinflation (see Disinflation)
and dollar appreciation, 7–9, 21–23
and exchange rates, 3, 7–9, 49, 60, 75, 153, 161–162
and fiscal expansion, 214–219
German, 76
and indexation, 108, 159
and interest rates, 190–192
Japanese, 76
in LDC debtor countries, 146
and nonaccelerating, 217
and unemployment, 218
U.S., 8, 18, 76
Inflation tax, 152
Information, relevance of, 74–75
Institute of International Finance, Inc., The, 132
Interdependence
cyclical, 61–62, 70
and fiscal expansion, 228
and flexible exchange rates, 59–81
and future expectations, 73–75
Interest equalization tax, 30, 80
Interest rate
Argentinian, 151
Brazilian, 151
and budget deficits, 106, 183, 197–198
Chilean, 151, 156
and disinflation, 164
and dollar overvaluation, 28
and exchange rates, 63–68, 69–70
and expectation of depreciation, 163
and export earnings, 137
and export volume, 89–90, 91, 137, 140
and external debt, 112, 114, 137
and fiscal policy, 7, 25
German, 25
inflation, and real rates, 190–192
Japanese, 25
LDC rates, 132–133
and monetary policy, 6, 12
negative real rates, 172
nominal, and dollar depreciation, 5–6
pegged, 78
real rate equalization, 155–156
reduction of real rates, 13, 17–18, 28
and risk premium, 37–38, 69–70
and stabilization programs, 163
U.S., 25, 197–199
and wealth distribution, 69–70
International asset markets, 11
International bond markets, 29
International bond portfolio, 11–12
International competitiveness. See Competitiveness
International Monetary Fund, 72, 90, 132, 140, 141
International monetary system, 25, 27–30, 75
International money demand shifts, 11–12
Investment
and appreciation, 105
in Brazil, 116
business fixed, 104–105
in Chile, 109–112
and current account deficits, 121
and depreciation, 104–105
and exchange rates, 104–105
fiscal policy based on, 193–194
incentives, 225
inventory, 104–105
public sector infrastructure, 227
standard model, 123–125
Involuntary lending, 140–141
Isard, P., 39
Israel, 121
Italy, debt-income ratio of, 172
Japan
budget trends, 25
fiscal policy, 17
inflation in, 76
interest rates, 25
Johnson, Harry G., 59
Keynes, John Maynard, 183, 207
Keynes-Clark model, of debt liquidation, 185–191
Kissinger, Henry, 88
Klein, Herbert, 176
Korea, trade patterns and real exchange rates in, 94
Krugman, Paul, 6
Latin America. See also name of specific country
capital flows into, 21, 99, 101, 138
current account deficits, 90
debt-export ratio, 90–91
debt problems, 88–90, 97–126, 132–149
depression in, 92
domestic macroeconomic policy, 135
economic growth rate, 147
export volume, 90
external debt, 90, 98–99
import volume, 142–143, 145
overborrowing by, 97–126
per capita income, 92
stabilization policies in, 151, 160–164
trade adjustment of, 21
trade balance, 141–142
LDCs. See also Latin America; names of specific countries
and commodity prices, 70, 72-73, 91, 143
debt problems of, 88-126, 132-149
demand in, 92-93
employment in, 92, 93
export promotion, 139
import substitution, 139, 142, 143
overborrowing by, 97-126
and protectionism, 149
recession in, 141-142
stabilization policies in, 151, 160-164
trade adjustments of, 21
trade performance, and OECD countries, 90-91
and U.S. monetary policy, 72-73
wages in, 94
Lever, Lord, 132-133
Liquidity, and LDC debt problems, 89, 138

Macroeconomic model, 61-62, 69
Macroeconomic policies, 28, 60, 135
Macroeconomic stability, and flexible exchange rates, 32-33
Mankiw, G., 194
Manufacturing
and dollar overvaluation, 22-23
domestic production level, 9-10, 18-19
employment, decline in, 23
trade imbalance in, 5, 19
Market equilibrium, 222-223
McKinnon, Ronald I., 5, 11-12, 76
Meese, R., 39
Metcalf, D., 226
Mexico, 94, 121
debt problems of, 135, 145
employment in, 95
financing of capital flight, 135-136
Minnesota School debt theory, 190
Modigliani, Franco, 80
Monetary model, of exchange rate determination, 34-37
Monetary policy
divergent national policies, 78-79
and dollar appreciation, 5, 11
and employment, 68
exchange-rate-oriented, 3-4, 6-7, 11-13, 29, 76, 80, 225
and fiscal expansion, 224-225
and inflation, 76-77.
and interest rates, 6, 12, 25

and unemployment, 210
U.S. policy, 5, 72-73
Money, constancy of, 194
Money demand, 11-12, 194-195
Mundell, Robert, 79, 170
Mundell-Fleming model, 4, 5, 6, 62, 68
Mussa, M., 43
Negative multipliers, 194-196
Nixon, President Richard, 27
Nonsterilized intervention, 12, 70, 78
Nurske, R., 32
OECD, 48, 70, 72
OECD countries
economic growth rate, 145
fiscal policy, 6
and LDC trade performance, 90-91
unemployment in, 88
Oil shock, and LDC debt, 98-99, 113-114, 115, 117
Output growth, and unemployment, 210-213
Overborrowing by LDCs, 97-126

"Peso problem," 43-45, 48, 74, 185
Phillips curve, 32, 45
Poincaré, Raymond, 74
Poole, W., 12
Portfolio assets, substitutability of, 7, 52, 37-38, 68, 195
Portfolio diversification, incentives for, 68-69
Portfolio shifts, 11-12, 77-78
Price elasticity of demand, 65-66
Prices
and dollar appreciation, 7-8, 21
controls, 163-164
and international competitiveness, 17
optimal, 29
sources of relative change, 4
of traded goods, 155
Profit-sharing programs, 230
Protectionism
and LDC debtor countries, 149
U.S., 10, 88
Purchasing power parity
and exchange rates, 3-7, 28, 34, 155
deviations from, 3-7
in stabilization programs, 155, 157
Index

Quantity theory, 34

Rational expectations, 222–223
Reagan, President Ronald, 24
Real interest equalization taxes, 50, 53–54
Recession
  in Great Britain, 211, 212
  in LDC debtor countries, 141–142
Risk
  aversion, 70, 105
  and exchange rate band, 77
  premium, and interest rates, 37–38, 69–70
Rogoff, K., 39
Rosenstein-Rodan, Paul, 151
Rostenkowski-Gebhardt-Bentsen bill, 10, 88

Sachs, J., 121
Safe haven, 4–5, 23, 30
Salant, S., 43
Sargent, Thomas, 190, 223
Saving
  and appreciation, 104
  in Chile, 111
  and government budget deficits, 104
  reduction in, 103
Service economy, in U.S., 5
Shiller, R., 45
Simonsen, Mario, 147
Solvency, and LDC debt problems, 89, 138–139
Stabilization policies, 199
  and flexible exchange rates, 60, 80
  German, 207
  in LDCs, 151, 160–164
Standard of living
  and budget deficits, 106, 154
  and depreciation, 62
  and real appreciation, 162
Sterilized intervention, 3, 12, 29, 50–53, 70, 78
Subsidies, government, 115–116, 193
Substitutability of assets, 7, 52, 37–38, 68, 195
Summers, L., 194
Supply side economics, 74, 81, 220, 224

Target zones, 12–13, 18, 29, 77, 151, 156, 163
Tax cuts, 93, 194, 197, 199
Tax smoothing, and budget deficits, 106–107

Thatcher, Margaret, 206, 223
Tobin, J., 195
Townsend, J., 39
Trade balance
  Chilean, 136
  and dollar appreciation, 10
  and exchange rates, 10, 27
  Latin American, 141–142
  U.S., 19, 25, 197
Trade flows, elasticity of, 7
Trade unions, weakening of, 21

Unemployment
  and appreciation, 210
  British, 205–230
  Chilean, 108
  and competitiveness, 210
  and demand, 169–170
  and dollar overvaluation, 28
  and economic growth, 210
  European, 13, 28
  and fiscal policy, 210, 213–230
  and inflation, 218
  and monetary policy, 210
  in OECD countries, 88
  and output, 210–213
  and wages, 169, 170
United States
  budget deficit, 17
  capital flows into, 4, 23, 30
  competitiveness, 17, 19, 21–22
  current account deficit, 21
  debt-income ratio, 200
  disinflation in, 12
  economic effects of dollar appreciation, 21–23, 47–50
  economic growth, 27, 197–199
  employment rates, 23
  fiscal policy, 5–6, 197–198
  foreign macroeconomic policies, 60
  inflation in, 8, 18, 76
  interest rates, 25, 197–199
  LDC debts to, 132
  monetary policy, 5, 72–73
  protectionism, 10, 88
  real exchange rate, 3–4
  service economy, 5
  trade balance, 5, 10, 19, 25, 197
  wages, 19

Venezuela, 121
Volcker, Paul, 177
Wages
  in Chile, 108
  and commodity prices, 73
  controls, 163
  and dollar overvaluation, 8–9, 21
  and exchange rates, 62–68, 79
  and food price inflation, 22
  inflation, and dollar appreciation, 8–9
  in LDC debtor countries, 94, 132,
  138–139, 146
  real wage rigidity, 73, 79

and unemployment, 169, 170
  U.S. rates, 19
  Wallace, N., 190
  Walters, Sir Alan, 213
  Watson, M. W., 42
  Wealth distribution, 37, 69–70
  Weitzman, Martin, 229–230
  Welfare economics, of disequilibrium ex-
  change rates, 113
  Williamson, J., 12
  Winkler, M., 132