

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
 Germany
 budget deficit, 171
 budget trends, 24
 currency depreciation, 18
 debt-income ratio, 200
 fiscal policy, 17, 199
 inflation in, 76
 interest rates, 25
 stabilization in, 207
 Giersch, Herbert, 221
 Government bonds, 185, 187–188, 195
 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 monetary policy, 76–77
 - 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

- 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 exchange rates, 113
- Williamson, J., 12
- Winkler, M., 132