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In recent years, the volatile behavior of exchange rates has occupied the attention of economic policymakers, corporate and labor leaders, and private citizens, for exchange rates directly influence such important economic magnitudes as inflation, interest rates, unemployment, and international competitiveness. Unfortunately, the economic theories of exchange rate determination that were developed during the earlier era of fixed exchange rates have been of little assistance in explaining the international financial instability of the 1970s and 1980s. International economists have had to create new models to account for the most important characteristics of the new environment.

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