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Chapter 9

1. In fact, on 16 December 1987, Mexico sought relief from inflationary pressures by implementing a system of partial wage-price controls. The controls cover the exchange rate, all public sector prices, wages, and the prices of certain key consumption goods. Other prices are free to adjust.

2. Other types of tax increases may help control inflation without jeopardizing growth. In the model of chapter 7, for example, it is easy to show that a land tax will lower the inflation rate while leaving the steady-state capital stock and real output unchanged. Whether it is politically feasible to introduce such selective taxes is another matter.

3. There are numerous types of monetary policy. The statement in the text is correct for decreases in the reserve requirement and increases in real lending by development banks. A decrease in required bank purchase of government bonds raises real output and definitely reduces inflation if accompanied by a reduction in bond supply that stabilizes the real bond rate.

4. I am at a complete loss to explain why, with \$15 billion of foreign exchange reserves in 1987, the administration does not pursue more expansionary policies.

5. This policy, of course, was suspended with the introduction of partial wage-price controls at the end of 1987. After the peso was devalued on 14 December 1987, the controlled exchange rate was kept fixed for over a month and then adjusted gradually to a rate of 2,273 pesos. In March 1988 it was decided that the controlled rate would remain fixed at 2,273 pesos through the end of May. Since free prices continued to rise at a rapid rate (6.9 percent in March), the real exchange rate appreciated considerably in the first quarter of 1988.

6. See Buffie (1987a, 1987c, 1988).

7. See Sachs (1987).

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