Author Index

Al-Khuri, S., 429, 432
Argy, V., 292 nn. 3, 4, 305n, 315, 315 n. 4, 509
Balassa, B., 466 n. 6
Barro, R. J., 9, 11, 86, 248, 286, 351–52, 354n, 363 n. 13, 423 n. 4
Berner, R., 234 n. 3
Bilson, J. F. O., 350, 352, 507 n. 20
Black, F., 412
Blejer, M. I., 581 n. 6, 11, 61 n. 76, 303
Blinder, A. S., 422
Bordo, M. D., 439, 503, 504 n. 13
Boschen, J. F., 286
Boughton, J. M., 429
Box, G. E. P., 276
Boyer, R. S., 291 n. 2
Brittain, B., 16 n. 4, 503
Brunner, K., 422 n. 2
Bruno, M., 240, 494 n. 1
Bryant, R. C., 382, 397
Cagan, P., 436, 437n
Carr, J., 87, 87n, 115–16, 121, 164 n. 6, 251 n. 30, 503n
Cassese, A., xiii, 6, 58, 74 n. 11, 304n, 422 n. 2, 495, 497–500, 502, 506
Chetty, V. K., 503
Choudri, E. M., 503, 504 n. 13, 516n
Chow, G. C., 306, 317
Christensen, L. R., 248 n. 22

Coats, W. L., Jr., 431n
Connolly, M., 80n, 292 n. 4, 305n, 506
Cross, R. J., 58n
Darby, M. R., xiii, 4n, 6, 8–12, 40 n. 27, 58, 83–85, 87, 87n, 88n, 90, 91 n. 12, 96n, 97 n. 18, 98, 115–16, 116 n. 7, 121, 164 nn. 3, 6, 201 n. 24, 239n, 243, 248 n. 21, 251 n. 30, 270n, 273, 283, 289, 291, 292 n. 3, 293n, 310, 315, 318, 323n, 340 n. 24, 377n, 420, 423 n. 5, 433 n. 11, 437, 465 n. 3, 478, 480 n. 5, 487, 493, 496–97, 499–500, 499 n. 6, 501 n. 8, 502, 503n, 504, 507–8, 508 n. 21, 514 n. 32
de Vries, M. G., 24
Dewald, W., 422 n. 2
Dooley, M. P., 302 n. 11, 362 n. 12, 465 n. 2
Dornbusch, R., 201 n. 22, 350–53, 362–63, 501, 512 n. 29
Fausten, D. K., 499 n. 3
Federal Reserve Board, 21n
Feige, E. L., 97 n. 18, 283
Feldstein, M. S., 517 n. 37
Figlewski, S., 285n
Fischer, S., 422
Fisher, I., 495, 515 n. 35
Fried, E. R., 494 n. 1
Friedman, M., 48 n. 3, 52 n. 6, 61, 423 n. 5, 430n, 439
Gaillot, H. J., 501 n. 8
Gandolfi, A. E., xiii, 11, 12, 58, 419, 421, 430n, 473 n. 10, 496–98, 500
Garber, S., 284 n. 16
Genberg, A. H., 292 n. 4, 298 n. 9, 305n, 306, 315, 506
Girton, L., 25 n. 13, 62 n. 7, 350–51, 351 n
Goodhart, C. A. E., 74 n. 10
Gordon, R. J., 431 n, 494 n. 1
Gowland, D. H., 74 n. 10
Granger, C. W. J., 64–66
Griliches, Z., 430
Grossman, H. I., 286
Grubel, H. G., 380
Hafer, R. W., 431 n
Hall, R. E., 234 n. 3, 241, 243 n. 17
Haltunen, H., 513
Hamburger, M. J., 503
Haraf, W. S., 275 n. 6
Harper, M. J., 241, 269 n. 35
Hein, S. E., 431 n
Heller, H. R., 480 nn. 4, 5, 507 n. 20
Hendershott, P. H., 382
Henderson, D. W., 62 n. 7, 350, 351 n, 352, 365 n. 15, 367 n, 368, 513
Hercowitz, Z., 286
Herring, R. J., 292 n. 5, 310, 315, 342 n. 30, 385 n, 402, 506, 509
Heston, A. W., 500 n
Hill, R. D., 382–83, 385–86, 385 n, 391, 397 n
Hilliard, B. C., 506
Hodgson, J. S., 382
Hodjera, Z., 314, 316 n
Holmes, A. B., 382
Horrigan, B. R., 274 n. 3
Hudson, E. A., 240–41
Huffman, W. E., 74 n. 10, 430 n, 439
Ibbotson, R. G., 36 n. 22
IMF, 25 n. 12, 26n, 35n, 37 n. 24, 391
Intriligator, M. D., 402
Isard, P., 302 n. 11, 362 n. 12, 465 n. 2, 499
Jenkins, G. M., 276
Johnson, H. G., 14n, 17 n. 7, 59 n. 2, 291 n. 2, 294 n, 350–51, 494 n. 2, 499 n. 3, 505
Jonson, P. D., 58 n
Jonung, L., 439
Jorgenson, D. W., 241, 248 n. 22
Kaldor, N., 494 n. 1
Khan, M. S., 507 n. 20
Klein, B., 515 n. 34
Klepper, S., 284 n. 16
Knight, M., 507 n. 20
Kochin, L. A., 516 n
Kohlhagen, S. W., 315
Kopcke, R., 234 n. 2
Korteweg, P., 274 n. 3
Kouri, P. J. K., 292 nn. 3, 4, 305 n, 315, 315 n. 2, 4, 350, 350 n, 381–82, 509
Kravis, I. B., 61 n. 4, 499, 500 n
Kreicher, L. L., 389
Kunze, K., 241, 269 n. 35

Laffer, A. B., 201 n. 23, 480 n. 4, 499
Laidler, D. E. W., 58 n, 426 n. 6, 430 n, 494 n. 1, 2
Laskar, D., xiii, 9, 10, 58, 289, 298 n. 10, 305 n, 310, 314, 315 n. 3, 328 n. 17, 338 n, 347 n. 32, 507, 509, 517
Lawrence, R. Z., 501 n. 8
Leamer, E. E., 397 n
Lee, C. H., 382, 384
Lee, D., xiii, 10, 201 n. 22, 290, 349, 365 n. 16, 377 n, 501, 513, 518
Leiderman, L., 285 n
Leijonhufvud, A., 516
Lipsey, R. E., 61 n. 4, 499
Lothian, J. R., xiii, 5, 6, 11, 12, 46, 52 n. 6, 58, 74 n. 10, 304 n, 419, 421, 422 n. 2, 430 n, 439, 473 n. 10, 493, 495, 496–98, 499–500, 502, 506, 516 n
Lucas, R. E., 9, 11, 166 n. 11, 248, 274, 285, 362 n. 11, 422

Maddala, G. S., 292 n. 3
Magee, S. P., 292 n. 3, 306 n. 17
Major, R., 31 n
Marchon, M., 422 n. 2
Marston, R. C., 292 n. 5, 310, 315, 342 n. 30, 506, 509
Martino, A., 428
Masson, P., 513
McCallum, B. T., 273 n. 2, 274 n. 3
McKinnon, R. I., 511 n. 26
Meiselman, D. I., 201 n. 23, 480 n. 4, 494 n. 2
Meltzer, A. H., 422 n. 2
Melvin, M., xiii, 10, 94, 380, 390, 501
Merton, R. C., 391
Michaely, M., 314 n
Miles, M. A., 16 n. 4, 503
Miller, N. C., 381, 384
Mork, K. A., 241, 234 n. 3
Mullen, J., 518n
Murray, G. L., 315
Mussa, M. L., 42, 294n, 506
Muth, J. F., 468

NBER, 67n
Nelson, C. R., 276, 473, 473 n. 10
Neumann, M. J. M., 315 n. 2
Newmarch, W., 495
Niehans, J., 303 n. 14, 349-50, 377
Norsworthy, J. R., 241, 269 n. 35
Nsouli, S. M., 429, 432
Nurkse, R., 314n

Obstfeld, M., 506, 508, 509, 509 n. 24, 517
Parkin, J. M., 201 n. 23, 480 n. 4, 494 nn. 1, 2
Pearce, D. K., 97 n. 18, 283
Perry, G. L., 494 n. 1
Phelps, E. S., 234 n. 3, 241
Pigott, C., 286
Plosser, C. I., 469, 473, 473 n. 10
Porter, M. G., 315, 315 n. 2, 381-82, 509
Prachowny, M. F. J., 95 n. 14, 388, 396, 400, 407
Price, J. W., 314n, 506
Purvis, D. D., 243 n. 17
Putnam, B. H., 60

Rasche, R. H., 234 nn. 2, 3, 238, 238n, 240 n. 12, 241, 243 n. 17, 250, 269 n. 35
Richardson, J. D., 499
Rodriguez, C., 62 n. 7, 350, 350n, 353-54
Roll, R., 352n, 464, 473
Roper, D., 350
Sachs, J., 240, 494 n. 1
Samuelson, P. A., 466 n. 6
Sargent, T. J., 273 n. 2
Schultze, C. L., 494 n. 1
Schwartz, A. J., xiii, 5, 14, 48 n. 3, 52 n. 6, 61, 430n, 439, 497-98
Schwert, G. W., 469
Shenoy, S. R., 251 n. 30
Sims, C., 64-66
Sinquefield, R. A., 36 n. 22
Soltik, B. H., 391-92
Stern, R. M., 397n
Stockman, A. C., xiii, 6, 58, 83, 85, 292 n. 4, 305, 305n, 306 n. 17, 310, 315, 318, 355, 362 n. 12, 464, 466, 466 n. 6, 499, 500n, 502, 504, 507-8, 509, 514 n. 32, 517
Summers, R., 500n
Sweeney, R. J., 292 n. 5
Swoboda, A. K., 59 n. 3, 201 n. 23
Tatom, J. A., 234 nn. 2, 3, 238, 238n, 240 n. 12, 241, 243 n. 17, 250, 269 n. 35
Taylor, D., 40 n. 26, 80n, 292 n. 4, 305n, 506, 513
Theil, H., 274 n. 4
Tookey, T., 495
Tullio, G., 80n
Urish, T., 285n
Vannereau, C., 53n
Veil, E., 53n

Wachtel, P., 285n
Whitman, M. v. N., 381, 384, 499
Wilford, D. S., 60
Willet, T. D., 292 n. 4, 518n
Williams, D., 74 n. 10
Wonnacott, F., 19n
Zellner, A., 66
Zis, G., 201 n. 23, 480 n. 4
Subject Index

Adaptive expectations, 363
Aggregate demand function, 241 n. 15, 242-44, 274-75; Barro's approach, 9; elasticity of, 243, 243 n. 17; employment effects and, 243 n. 18; and oil price shocks, 240
Aggregate supply function: autocorrelation in output movements, 422; Lucas approach, 9, 11, 241, 274, 286, 362
Arbitrage channels. See Goods substitution; Interest arbitrage; Law of one price level; Price arbitrage
ARIMA models, 97, 164 n. 5, 249 n. 24, 273, 276, 277 n. 11, 283; PPR stochastic process, 466-73
Asset substitution, 3, 116; interest arbitrage, 501; and monetary control, 301, 311; portfolio balance approach, 501-2
Autocorrelation, 284 n. 17

Balance of payments (BOP): of the U.S., 21, 50-51; and sterilization, 295-97. See also Monetary control; Sterilization
Bank for International Settlements, 26
Bonds, nonmarketable, 23, 23n
Box-Jenkins techniques, 67. See also ARIMA models
Bretton Woods system, 14, 43-44, 201; collapse, 26-32, 510-11, 515; and dollar exchange standard, 19-26; dollar reserves in, role of, 14, 20, 25-26, 498; gold convertibility, 24; gold reserves, 14, 18, 21-23, 29; and the IMF, 14, 24; monetary policy, U.S., 24-25; preconvertibility, 18-19
Canada: capital flows equation, 402; central bank behavior and the BOP, 77-78; data, 5, 51, 53-54, 527-48; floating rate regime, 19; interest rate arbitrage, tests of, 76; monetary control, 80, 366-11, 342-43; monetary growth sources, 78; money shock simulation, 170-86; oil prices and real income, 250-69; prediction error of PPP, 470-72; price and foreign shocks, 434-37; price arbitrage, tests of, 75; real income and demand changes, 276-82; sterilization coefficient, 337-38
Capital, 235 n. 4; capital-labor ratio, world, 248; growth in the U.S., 248 n. 22; marginal product of, 236n; rental price of, 234 n. 2
Capital flows, 121, 317; and OPEC, 95; and transitory income, 95; of the U.S., 26. See also Capital flows equation
Capital flows equation: expectational variables in, 330-36; government restrictions in, 397; IAPM formulations, 397-400; IMF data estimates, 406-15; Kouri-Porter type, 321-22; in Mark III models, 94-95, 119, 149-51, 502; multicollinearity problem, 383-84, 395-96; offset coefficient, 315, 321-22, 326-36; OLS vs. 2SLS estimates, 402-3; portfolio approach models, 380-89; return differentials in, 389-91, 412-13; risk prox-
ies, 381–82, 384–85, 395; and sterilization, 518; and trade balance, 396–97, 397n; 2SLS estimates, 400–405; wealth in, 386, 388–89, 414

Census XII procedure, U.S., 47n. See also
Data base: seasonal adjustment
Central bank intervention, 21, 38–39; under floating exchange rates, 36–38, 40, 119; the swap, 21; in the United States, 37–39
Cobb-Douglas production function, 232, 234
Commerce, Department of, 50
Crowding out: long-run, 275; short-run, 277 n. 12
Currencies, par values, 14–15. See also
Fixed exchange rates
Currency substitution, 3, 7, 16, 98, 121, 503–4. See also Asset substitution
Current account, U.S., 26
Data base, 46–57, 474–76, 493, 527–718; approach, 47–49; availability (see TROLL system); IMF data, comparison with, 54–55; and international agencies, 53n; interpolation techniques, 48–49, 48 n. 3; problems, data, 49–51; reliability, 51–55; seasonal adjustment, 42, 47n, 49n; series selection, 47–48
Devaluations, 512 n. 29
Dollar convertibility, 29, 34
Domestic credit, 76–78, 80n, 319
Eurodollar market, 25–26
European currency unit, 34, 34n
European Economic Community (EEC) snake, 30–32
European Monetary Cooperation Fund, 34
European Monetary System, 34, 42–43
European Payments Union (EPU), 18–19
Exchange-rate expectations, 323n, 325–26, 518. See also Expectational variables
Exchange-rate risk, 10, 11, 501
Expectational variables, 96–97, 110, 283; ARIMA, 97, 283; exchange-rate expectations, 108–9, 324–26
Expected money equations, 426–27
Federal Open Market Committee, 21
Federal Reserve Act, 481
Federal Reserve reaction function: and the BOP, 90, 116, 482–84, 486, 497–98; military variables, 117, 484
Fiat monetary standard, 5
Fiat reserve currency system: description, 478–80; and the U.S. Federal Reserve System, 480–84, 486
Fixed exchange rates: in the Bretton Woods system, 14–16, 18, 26; collapse of, 15, 26; currency parities readjustment in 1971 (see Smithsonian agreement); vs. floating exchange rates, 514–15; monetary control under, 314–43; par value system, 26; simulation model (see Mark IV–PEG)
Flexible exchange rates. See Floating exchange rates, managed
Floating exchange rates, managed: central bank intervention, 36–40; demand for reserves under, 33–34; and foreign exchange market operations (FXO), 349–79; gold, role of, 34–36; IMF amendments, 32–33, 37; monetary policy under, 43; and open market operations (OMO), 349–79; OMO vs. FXO under, 374–76; variability of exchange rates, 40–43
Foreign exchange market operations (FXO), 349, 366; dynamic effect of, 374–75; under flexible exchange rates, 349–79; impact effects, 372–73, 376–77; long-run effects, 366, 376; in monetary approach models, 350; neutrality, 354–55, 358, 366, 377; vs. OMO, 349–51, 374–76; in portfolio balance models, 350
Foreign exchange markets: history, 28–30; turbulence, 26, 28–29
Forward premium, 362 n. 12
France: Banque de France, 19; data, 5, 51, 53–55, 549–72; devaluation, 18, 28; dual exchange market, 30; central bank behavior and BOP, 77; import restrictions, 18; income elasticities, 115n; monetary control, 306–11, 342; money-price relation, 67–69; prediction error of PPP, 471–72; price and foreign shocks, 434–37; price arbitrage, tests of, 71–75; oil price effects on real income, 250; real income and demand changes, 276–82; sterilization coefficient, 336–38
Germany: central bank behavior and BOP, 77; data, 5, 53–55, 573–600; demand changes, 276–82; floating of D-mark, 28–29; government spending, simulation, 8, 187, 194–99, 200; interest-rate arbitrage, 76; monetary control, 80, 306–11, 342–
Subject Index

Germany (continued)
43; monetary growth, sources, 78; money shock simulation, 170–86, 188–93; oil price effects, 250–69; prediction error of PPP, 471–72; price and foreign shocks, 434–37; price arbitrage, tests of, 75; sterilization coefficient, 336–38

Gold: as collateral, 35; and the dollar, 21–24, 29–30; under floating rates, 34–36; London gold market, 18; public auctions of IMF, 35–36. See also Gold reserves

Gold price, 14, 18, 29–32, 34–36; exchange stabilization fund (1961), 21; gold pool, 23–24; intervention of Federal Reserve, 21; and other asset prices, 36; Smithsonian agreement, 30; and the swap, 21–22; and U.S. policy, 24

Gold reserves, 14, 25, 34; free gold, 481, 481 n. 6; U.S., 21–22, 24, 29; U.S. gold reserve requirement, 23, 29

Gold standard, 5, 478

Golden rule, 356

Goods arbitrage approach. See Goods substitution; Law of one price level; Price arbitrage

Goods substitution, 3; causality tests on, 499–500; global monetarism, 499; law of one price, 499; and monetary control, 301, 311; and PPP, 500–501; price arbitrage tests for, 500. See also Price arbitrage

Granger-causality tests. See Timing relations

Group of Ten, 35; and central bank intervention, 37

Import demand equation: J-curve effect in, 8, 92, 118, 121, 201; in the Mark III International Transmission Model, 92

Import supply equations, 93

Income, real. See Lucas-Barro real income equation

Income elasticity of money demand, 20, 115n, 239

Independence of Monetary Policy. See Monetary control; Monetary policy

Inflation, U.S.: domestic factors in, 422; foreign factors in, 484–87, 487 n. 17; monetary vs. nonmonetary factors, 497; and nonreserve countries, 12–13; and oil prices, 4; predictability, 515 n. 34; and price controls, 4

Inflation, world, 3–4; monetary policy, 343, 513–17; money vs. nonmonetary factors, 494–98 (see also Special-factor hypothesis); oil price changes, 422, 433–36, 438, 496; and oil prices, 8–9, 11–12; and price controls, 9; transmission of, 98–99, 201, 433; trends, 12, 19–20; and U.S. monetary policy, 3–4, 12–13, 420, 478–87, 497, 511 n. 6. See also International transmission; Mark III Model: Mark IV Model

Interest arbitrage, 80, 119; causality tests, 75–76; in Eurocurrency markets, 465 n. 2; and MABP, 501; and PPP, 464–65

Interest-rate elasticities, 328 n. 16

Interest rates: data, 52; domestic vs. foreign, 75–76; Fisher relation, 465; income taxation, 465 n. 3; proxies, 384

International asset pricing model (IAPM): covariance risk measures, 10, 290, 391–95, 410; and capital flows equations, 391–400, 404–5, 407, 410, 412–13

International Monetary Fund (IMF), 14, 46, 53n; data vs. NBER data base, 5, 54–55; gold policy, 18, 29, 32–33; gold sales, 18, 35–36; SDRs, 25–26, 33n, 36

International monetary system: evolution, 5, 17–44; and monetary policy, 24, 26, 513–17; political economy, 518

International transmission: causality tests, 58–59, 64–79; currency substitution channel, 98, 503–4; goods substitution channel, 16–17, 498–501; Keynesian absorption effects, 17, 99, 504; money-flow channel, 15–16, 98, 501–3; supply-side channels, 17, 99. See also Mark III Model; Mark IV Model; Price equation

Inventory fluctuations, 275

IS-LM model, 91

Italy: data, 5, 53–54, 601–25; central bank behavior and BOP, 77; income elasticity of money demand, 428; monetary control, 306–11, 341–42; money-price relation, 67, 69, 72; prediction error of PPP, 471–72; price and foreign shocks, 434–37; real income and demand changes, 276–82; sterilization coefficient, 336–39

Japan: capital flow controls, 19, 29, 32; central bank behavior and BOP, 77–78; currency substitution, 121; data, 5, 53–55, 626–45; floating of yen, 30; interest-rate arbitrage, tests of, 76; monetary control, 306–11, 342–43; prediction error of PPP, 472; price and foreign shocks, 434–37;
price arbitrage, tests of, 74–75; real income and demand changes, 276–82; sterilization coefficient, 336–39

Keynesian approach, 6n

Law of one price level, 16–17, 118, 433. See also Goods substitution; Price arbitrage

Legal restrictions, banks, 52 n. 6

London gold market, 23–24, 29

London gold pool, 29

Lucas supply curve: anticipated vs. unanticipated demand changes, 113, 273–80, 283–84; Barro restriction, 273–74; basic model estimates, 277, 280–82; generalized, 274–76; generalized model estimates, 276–80; GNP as income proxy, 239–40; Lucas-Barro real income equation, 5, 9, 84, 232, 248–49, 504; in Mark III Model, 86–87, 102–8, 115, 124–25, 274–75, 496; measurement errors, 53, 280, 283–85; oil price change, 246–51; omitted variables bias, 274 n. 4. See also Aggregate supply function


Mark IV International Simulation Model, 7, 84, 163–66, 251 n. 31; collinearity of variables, 163 n. 1; on government spending, 8; vs. Mark III, 163–65, 163 n. 2; on monetary policy, 8; omitted channels, 165; real income and oil prices, 496; variables and parameters, definition, 202–4

Mark IV Model, floating exchange rates (Mark IV–FLT), 7–8, 10, 84, 162–63, 166, 166 n. 9, 218–30; base simulation, 166–69; money shock experiments, 171, 178–84, 185–86, 201; oil price effects, 233


Mark IV–Oil Model, 233, 254–69

Martingale stochastic process, 463. See also ARIMA models; Random walk of PPR


Military aid, U.S., 19

Monetary aggregates, 52; data problems, 49–50, 52, 52n

Monetary approach models, 6n, 291, 352–53; expectations in, 10; neutrality in, 354; sterilization in, 10

Monetary approach to the balance of payments (MABP), 59–63, 59 n. 3, 284 n. 15, 505–6

Monetary control coefficients, 322–24

Monetary control over under fixed exchange rates, 290–93; and asset substitutability, 316–26, 343; coefficients of, 322–24, 338–42; conditions for, 299–303; empirical tests, 303–11, 314–44, 509; exchange-rate expectations, 315–16; feedback rule, 462, 473; long-run, 311; and the MABP, 291, 293, 314; offset coefficient, 10, 321, 326–36, 342, 509, 509 n. 24; speculation variables bias, 344–47

Monetary control under flexible exchange rates, policy instruments, effects of, 349–77

Monetary policy, nonreserve countries: BOP effects, 117, 121; under pegged exchange rates, 9, 314–43; sources, 78–79; and U.S. monetary policy, 498

Monetary policy, U.S.: under Bretton Woods, 5, 21–25, 478; Federal Reserve reaction function, 481–84; under floating
Monetary policy (continued)
exchange rates, 37–39; and foreign prices, 75, 80, 80n; gold reserve requirement, 481, 483–84; and military variables, 117; monetary constitution, 516–17, 517 nn. 37, 38; political factors in, 516
Money demand functions, 59, 233; Cagan-type, 305; currency substitution channel, 7 (see also Currency substitution); estimates, 326–28; and fluidity growth, 479, 479 n. 2; income elasticities and stock adjustment, 428, 429–30; interest elasticities, 428; omitted variables, 439; permanent vs. transitory effects, 485–86; with shock absorber effects, 87, 121; short-run, 306, 317
Money flow channel of transmission, 15–16
Money growth, US, 11–12, 19–20, 116–17, 512 n. 28. See also Monetary policy, U.S.
Money multiplier, 319
Money price relation, 62–63, 62 n. 6, 79
Money stock equation, 321–24
Money supply reaction functions, 88–90, 88n, 245, 293–94, 318–20, 507–8; and the BOP, 90, 117, 336–39, 507; and government spending shocks, 89; reserve country vs. nonreserve countries, 90; speculative variables, 340 n. 25; and sterilization behavior, 319–21, 336–38, 507–8
Money supply rules, 511–12, 516–17
Mundell's assignment problem, 349–50
Nelson's TRANSEST program, 283
Neoclassical growth model, 236
Netherlands: capital controls, 32; central bank behavior and BOP, 77–78; data, 4, 53–54, 647–63; floating of exchange rate, 29; monetary control, 306–11, 342–43; money shock simulation, 170–86; oil price effects, 250–69; prediction error of PPP, 470–72; real income and demand changes, 276–82; sterilization coefficient, 336–39
Neutrality, 358–59, 377
OECD, 46, 53n
Offset coefficient, 10, 315, 321–24, 326–36, 342, 342 n. 30
Okun's Law, 88, 184
Oil price changes: energy price index, 238; and exports, 94; long-run effects, 234–40; Mark IV-oil model, 254–69; and monetary policy, 245–56; and OPEC, 234 n. 3; output elasticity to, 236; and price controls, 84, 251, 247–48, 496; price level effects, 84, 239, 244; real income equation, effects on, 246–51; short-run effects, 240–44; simulation experiments, 233, 248–53; and world inflation, 8–9, 232–70
Open macromodels, 351–55
Open market operations (OMO), 349, 366; dynamic effects of, 369–72; under flexible exchange rates, 349–79; vs. FXO, 374–76; impact effects, 367–69, 376–77; long-run effects, 366, 376; in monetary approach models, 350; neutrality, 354–55, 358–59, 366, 377; in portfolio balance models, 350
Organization of Petroleum Exporting Countries (OPEC), 93–95, 250
Overshooting of exchange rates, 10, 201 n. 22, 353, 363, 368, 372
Permanent income, 96, 423 n. 5
Phillips curve, 286, 493
Political risk, 302 n. 11
Portfolio balance approach, 3, 6, 6n, 290, 350, 368, 376, 501–2; and capital flows equations, 380–97; exchange-rate risk, 290; long-run neutrality, 354–55
Price arbitrage, 59, 61, 79, 80; causality tests on, 63, 74–75; and nontradable goods, 61, 61 n. 5
Price controls, 84, 251, 251 n. 30, 247–48
Price measures, 67–74; data problems, 51
Price specie-flow mechanism, 12–13, 98, 120–21
Principal components, 2SLS, 249–50, 276; instruments, list of, 123
Protectionist policies. See Trade restrictions
Purchasing power parity (PPP), 11, 59, 351–52, 420; level vs. growth concepts, 12, 420, 463–64, 471–73, 500–501; monetary policy, 473–74; PPR stochastic processes, 464–73; predictive power,
463n, 464, 470–73; purchasing power ratio (PPR), 463–64; and real interest rates, 465, 472–73; and relative price changes, 466–67, 500, 500n; relative vs. absolute, 463n

Random walk of PPR, 464–66
Rational expectations, 7, 10, 285n
Reserve country. See Fiat reserve currency system
Reserves, international: demand for, 33, 33 n. 17; Eurodollar market, 25–26; European monetary system, 34; foreign exchange, 20–21, 33–34; gold reserves (see Gold reserves); growth rates and variance, 27; and high-powered money, 63–64; nature of, 480n; real-bills doctrine, 25 n. 13; SDRs, 25–26, 26n
Reserves settlement, official, 12, 50
Risk, definitions, 384 n. 4
Risk premium: as return differential proxy, 389–91; series construction, 390
Risk proxies: covariance measures, 391–96; variance, 384–85
Root mean square errors, Simulation, 166–69

Shock absorber adjustment process, 116
Simulation, See Mark IV Model
Simultaneous equation bids, 113, 166 n. 9, 316n
Simultaneous equation method, 96, 114
Smithsonian agreement, 30
Special drawing rights (SDRs), 25–26, 36
Special-factor hypothesis: commodity prices, 494, 497; monopoly power, 494–95; oil prices, 494–96. See also Oil price changes
Speculation in exchange rates, 42
Sterilization, 6, 7, 76n, 80, 113, 298 n. 9, 298–99, 314, 338; and the Bretton Woods system, 510–13; extent of, 505–8; under floating exchange rates, 10, 512–13; and the MABP, 294n; in a modified monetary approach, 294–98, 305–11; and monetary control, 291–303, 505, 508–10; and monetary control, tests of, 303–11; by nonreserve banks, 83–84, 115n; under pegged exchange rates, 10, 15–16; in a portfolio balance model, 10
Sterilization coefficient, 319–21, 336–39, 342, 342 n. 30
Sterling, pound, 25; areas, 31; devaluation, 15, 26; floating in 1972, 31; and the U.K. trade balance, 25
Swap, the, 29
Timing relations: BOP and money supply, 63–64, 76–78, 80, 498, 506–7; Granger-causality tests, description, 6, 64–67; interest-rate arbitrage, 75–76, 81; and monetary control, 303–4; monetary growth, sources, 78–79; money and prices, 59–63, 67–74, 79; price arbitrage, 74–75, 80
Tobit analysis, 98n
Trade flows, 113
Trade restrictions, 14, 17–18
Transfer function, 273; expected money estimates, 283
Treasury Department, U.S., 50
TROLL system, 85, 116 n. 6, 276, 276 n. 8, 400

United Kingdom: BOP, 25; data, 5, 53–55, 664–89; central bank behavior and BOP, 77; competition and credit controls, 428; currency substitution, 121; government spending, 187, 187 n. 19, 194–99, 200; income elasticities, 115, 428; monetary control, 306–11; money-price relation, 67, 70, 73–74; money shock simulation, 170–86, 188–93; oil price effects, 250–69; prediction error of PPP, 470–72; price and foreign variables, 434–37; price arbitrage, tests, 75; real income and demand changes, 276–82; sterilization coefficient, 337–38
United Nations Statistical office, 53n
United States: BOP and domestic credit, 76–78, 80n; crowding out, 275; data, 5, 53–54, 690–718; government spending, simulation, 187, 194–200; money shocks, simulation, 166, 170–71, 172–84; 185–86; oil price effects, estimates, 250–69; price arbitrage, 75; real income and demand changes, 276–82
Inflation became the dominant economic, social, and political problem of the industrialized West during the 1970s. How does inflation catch fire and spread from country to country? This book offers comprehensive answers, including the controversial argument that the United States, through its policy of monetary growth, was the primary instigator of inflation both at home and abroad.

The authors contend that OPEC prices, business and union monopolies, the substantial rise in commodity prices in 1973, and other “special factors” had only a small effect on inflation. They draw their conclusions from a consistent database of information for eight countries and a model of international transmission more complete than any other yet constructed. Additional chapters address an impressive variety of issues that complement and corroborate the core of the study. They answer such questions as these: Can countries conduct an independent monetary policy under fixed exchange rates? How closely tied are product prices across countries? How are disturbances transmitted across countries?

The International Transmission of Inflation is an important contribution to international monetary economics in furnishing an invaluable empirical foundation for future investigation and discussion.

“For doctoral candidates seeking dissertation topics in international economics and finance, there is no comparable source of references, data, econometric techniques, and topics to investigate. The value of the book... does not lie in the controversy of its message but in the solid foundations upon which the case is built. Instead of the usual array of superstars competing for their place in the top-ten, the Darby-Lothian authors are a cooperative group who seem genuinely interested in finding non-polemical answers to major problems in economic policy.”

—John F. O. Bilson, Journal of International Money and Finance

Michael R. Darby is professor of economics at the University of California at Los Angeles and a research associate of the NBER. James R. Lothian and Arthur E. Gandolfi are vice-presidents, Economics Department, Citibank, N.A. Anna J. Schwartz is a research associate of the NBER. Alan C. Stockman is assistant professor of economics at the University of Rochester and a faculty research fellow of the NBER.

An NBER monograph

The University of Chicago Press