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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.

This volume grew out of a National Bureau of Economic Research conference on exchange rates held in Bellagio, Italy, in 1982. In it, the world's most respected international monetary economists discuss three significant new views of the economics of exchange rates—Rudiger Dornbusch's overshooting model, Jacob Frenkel's and Michael Mussa's asset market variants, and Pentti Kouli's current account/portfolio approach. Their papers test these views with evidence from empirical studies and analyze a number of exchange rate policies in use today, including those of the European Monetary System.

"It is rare that a collection of papers such as this offers as many theoretical innovations, novel empirical analyses and clearly presented policy studies... The papers and comments offer a stimulating and provocative discussion of recent developments in the theory and empirical analysis of exchange rates and the policy implications which follow."

—David M. Kemme, Southern Economic Journal

"This volume is going to become a staple in any well-stocked international finance scholar's office."

—Michael Melvin, Journal of Economic Literature

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