## Subject Index

AA goods. See Goods (FA and AA)

- Balance of payments: conditions for trade surplus, 352; Japan (1949–75), 314–18; Japan's foreign exchange allocation system to maintain, 311; model of exchange rate effects on, 245, 247–55; relation of Korean capital account to uncovered interest differential, 289. See also Capital account; Current account
- Balassa-Samuelson hypothesis: countries consistent with, 129; countries contradicting, 122–23; as determinant of yen appreciation, 374–75; explained, 4, 110; propositions of, 129; relation of productivity to exchange-rate changes, 110, 117, 124– 25, 129, 155; relationship between exchange rate changes and growth under, 111–13, 155
- Banking system, Japan: under foreign exchange allocation system, 312-14
- Borrowing, international: effect of asymmetric information on, 66–67
- Capital account: capital flows with differences in (1970–80s and 1990s), 58; in East Asian and Latin American countries (1970s–1995), 99–100; in Korea, 287–89; Mexico (1990–95), 81
- Capital flows: asymmetric information and composition of, 66–67; to Colombia (1992–95), 79–80; differences in composition (1970–80s and 1990s), 58; in East

Asian and Latin American countries (1970s–1995), 85–98; Malaysia (1991– 95), 83; Mexico (1990–95), 80–82; model for simulation of Korean, 291– 302; problems with reversals in international, 57; Thailand (1990–95), 84

- Capital flows, Korea: effect of financial sector liberalization, 277–78; freedom of outflow, 287; limiting inflows in, 278, 283, 286
- Capital markets, Korea: deregulation of, 285–86; model and simulations of liberalization, 291–306
- Central bank: role in maintenance of currency's purchasing power, 270-71
- Chile: economic policy and performance (1977-82), 68
- Cointegration: for analysis of long-run relationships, 379, 382; test for, 383-84
- Consumption: model and specifications of exchange rate movements in relation to, 157–63, 180–82; testing for crosscountry disparity in, 170, 172–74; testing for trend property among four countries, 170–71; traded and nontraded goods in four countries, 165f, 166, 167f; of traded and nontraded goods in relation to exchange rate, 163–78, 181–83
- Contagion: of financial crises, 3; measures to negate tequila effect, 53; operating through trade and macroeconomic similarities, 49–50; original tequila effect, 30–31; testing for, 38–49, 51–53; time

Contagion (cont.)

- frame of tequila effect, 52. *See also* Speculative attacks on currency; Transmission, international
- Currencies: black market valuation in Japan (1949-71), 314-15, 316f; changes in monetary policy related to, 352; conditions for appreciation of, 110; devaluation in Korea (1980), 74; devaluation in Mexico (1982), 73; effect of yen appreciation/depreciation on East Asian (1980s, 1995), 199-207; effect of yen-U.S. dollar fluctuations on East Asian, 195-99; hollowing-out effect with overvalued, 353; implicit weights of dollar and yen, 192-95; in Japan under Dodge stabilization, 337, 339; J-curve effect with changes in relative price, 352-53; maintenance of country's purchasing power of, 270; pass-through effect of over- or undervalued, 352; relative price effect of devaluation, 352; reverse absorption effect of devaluation, 352; transmission of crises by speculative attacks on, 29-35, 49-50
- Currency bloc: effect on exchange rate policy, 278
- Currency boards: advantages and disadvantages, 404; appropriateness of, 433; characteristics of, 403; countries' adoption of, 403-4; Hong Kong, 405-8. See also Exchange Fund, Hong Kong
- Currency crises: analysis of potential for, 32–50; argument for independent impact of, 31–32; argument related to contagion, 29–31; clustering of, 31–32, 54–55; defined, 29; distribution (1959–92), 29–30; measurement of, 35–40; test for contagion of, 38–49
- Current account: analysis of deficit sustainability and intertemporal solvency, 59–63; Chile (1977–82), 68–71; Colombia (1980–88), 71–72; Colombia (1992–95), 80; deficits in East Asian and Latin American countries (1970s–95), 85–98; definition of balance, 59; Korea (1976–86), 74–77; with Korean capital market liberalization, 287; Malaysia (1979–86), 77–78; Mexico (1977–82), 72–74; sustaining imbalances while remaining solvent, 60–61; Thailand (1979–90), 78–79
- Data sources: analysis of correlation between growth and exchange rates, 118n5, 127,

129; analysis of countries' current account deficits and capital flows, 105, 106; analysis of exchange rate pass-through effect in Taiwan, 213, 216, 228–29, 231; analysis of Hong Kong currency board, 410; analysis of relation of consumption, nontraded goods, and exchange rate, 163, 166; analysis to explain selection of exchange rate regime, 16–19, 27; testing for cointegration in long-run exchange rates, 385, 399; testing potential for contagion of currency crisis, 32, 37–38

- Debt, external: Chile (1977–82), 68–71; Colombia (1980–88), 71; Colombia (1992–95), 80; East Asian and Latin American countries (1976–95), 63–85; impact of real interest rates (1975–94), 86–87; interest rates for East Asian and Latin American countries (1970–1995), 85–98; Korea (1976–89), 74–77, 277; Malaysia, 83; Malaysia (1979–86), 77–78; Mexico (1977–82), 72–74; Mexico (1990–95), 80–82; Thailand (1979–90), 79
- Developing countries: choice of exchange rate regime (1980–92), 1–2, 15–22; determinants of exchange rate regimes, 20–22; with exchange rates fixed to currencies of other countries, 109; productivity differential model of real exchange rates, 400–402
- Dodge stabilization (1949), Japan, 337, 339 Dutch disease, 139, 153
- East Asia: current account and REER in selected countries (1970–95), 74–79, 83–85; economic integration among countries of, 185; effect of resource endowment on exchange rate, income distribution, and growth, 139–51; growth patterns within, 150
- East Asian countries: effect of yen appreciation/depreciation on currencies of (1980s, 1995), 199–207; effect on currencies with yen–U.S. dollar fluctuations, 195–99; exchange rate arrangements and movements of selected (1980–95), 188–92; exchange rate policies of, 185; nominal and real effective exchange rates, 274–76
- East Asian nations: economic development in, 110–11; resource endowments of selected, 136–37
- Economic development: effects under Balassa-Samuelson hypothesis, 121-24;

factors in successful, 110–11, 338–39; "flying geese" patterns of, 111; relation between exchange rate and, 109–10

- Economic growth: Balassa-Samuelson framework export-led, 113–17; basis for crosscountry comparison, 151; correlation with machine export ratio (1973–92), 114–16; related to tradable and nontradable goods prices, 117–21, 127; relation of resource endowments to, 139–51; relationship between exchange rate changes and, 111–13; in resource-poor and -rich countries (1970–89), 146–47, 150; in selected Latin American nations (1870– 1990), 133–34
- Economic performance: Chile (1977–82), 68–71; Colombia (1980–88), 71–72; Korea (1976–86), 74–77; Malaysia (1979– 86), 77–78; Mexico (1977–82), 72–74; Thailand (1979–90), 78–79
- Economic shocks: Chile (1977–82), 71; Colombia (1980–88), 71; East Asian and Latin American countries (1970s–95), 85–98; effect on Korea (1976–86), 74–77; Hong Kong experience, 407; Malaysia (1979–86), 77–78; Mexico (1977–82), 73–74; Mexico (1990–95), 81–82; Thailand (1979–90), 78–79
- Exchange Fund, Hong Kong, 405-8
- Exchange rate: choice of fixed or flexible, 271; factors influencing operation of, 1; in Hong Kong under currency board, 405-8; Japan, South Korea, Taiwan, and United States (1976-94), 163-64; Malaysia (1979-86), 77-78; model of adjustment mechanisms, 245, 247-55; pegged to currencies of other countries, 109; in purchasing power parity concept, 355; real rate in Colombia (1980-88), 72; real rate in Colombia (1992-95), 79-80; real rate in Mexico (1990-95), 81; real rates in Chile (1977-82), 68-71; real rates in Mexico (1977-82), 73-74; relation between economic development and, 109; relationship between economic growth and, 111-13; relation to country's external purchasing power, 270; relation to macroeconomic stability, 9-10; Thailand (1979-86), 79; of yen against dollar (1980-95), 186-88
- Exchange rate, Korea: appreciation and depreciation of REER, 236–340; choices (1955–present), 272–73; factors affecting

equilibrium real rate, 280; long-run behavior, 240–45; in relation to currencies of trading partners, 273–75; relation to industrial countries' consumer prices of real and nominal, 275–76; specified range of Korean won against U.S. dollar, 236

- Exchange rate, nominal: choice of regime based on, 1–2; movement in Taiwan (1985–95), 381–82; in PPP theory, 384
- Exchange rate, real: behavior in demand- and supply-side approaches, 180-83; behavior using cointegration methods, 384-86; bilateral: Japan, South Korea, Taiwan, United States (1975-94), 164f, 166; correlation of changes with machine export ratios (1973-92), 115-17; determined by productivity differentials in developing countries, 400-402; in Japan (1949-71), 314-15; long-run behavior, 163-78; misalignment issues, 9; movement in Taiwan (1985-95), 381-82; movements according to Balassa-Samuelson hypothesis, 110; relation to consumption in four East Asian countries, 157-81; relation to resource endowments, 139-51; trend property of bilateral, 168, 169t
- Exchange rate mechanism (ERM), European crisis (1992–93), 51, 53
- Exchange rate pass-through: defined, 214; effect on domestic prices, 5; Taiwan exports, 213, 216, 228-33
- Exchange rate regime: choice on middleincome countries (1980–92), 15–22
- Exchange rate regimes: determinants of, 20–22; factors in choice of fixed or flexible, 1–2, 10–22, 26–27; fixed system in Japan (1949–71), 314–15; Korea (1955– present), 272; selection of fixed or flexible, 10–12; selection of flexible or pegged-but-adjustable, 12–15; simulations under alternative Korean, 255–61, 265
- Exchange rate system: currency board linked (Hong Kong), 406–8; dual system in Mexico (1982), 73; Korea (1970–95), 235–40; Taiwan, 379–80
- Exchange rate system, Korea: de facto peg to U.S. dollar (1965–79), 235–36; market average system (1990 to present), 236, 272–73, 285–86; pegged to basket of currencies (1980–90), 235, 286; planned reform of (1994–99), 239

Exports: comparison of Latin American, East Asian, and Chinese (1970, 1992), 138; expansion of Japanese (1955–56), 316; MITI promotion in Japan, 326–27

FA goods. See Goods (FA and AA)

- Financial crises: defined, 52; Mexico (1994– 95), 81–82. See also Currency crises
- Financial sector: indicators in East Asian and Latin American countries (1970s–1995), 85–98; liberalization in Korea (1993), 275, 277, 279, 282–83
- Financial system: in East Asian and Latin American countries (1970s-1995), 99-100; Mexico (1977-82), 74
- Foreign exchange allocation system, Japan: to control foreign trade, 311; function of, 311-12
- Foreign Exchange and Foreign Trade Administration Law (1949), Japan, 312
- Foreign exchange budget, Japan: allocation between FA and AA goods (1952–63), 317–18; levels (1952–63), 315–16, 317t
- Foreign exchange market: in Taiwan (1979), 379; Taiwan's central bank intervention (1986–89), 380; testing for contagion in, 38–49
- Foreign exchange market, Korea: effect of central bank intervention, 283; impact of financial sector reform on, 277; liberalization of, 278; under market average rate exchange rate system, 286–87
- Foreign exchange reserves, Hong Kong, 407-8
- Goods, nontradable: under PPP, 355-56; prices under Balassa-Samuelson hypothesis, 117-21
- Goods, tradable: under PPP, 355–56; prices under Balassa-Samuelson hypothesis, 117–21
- Goods (AT, AC, ATO, and ATN), Japan: by foreign exchange allocation to firms, 324-27
- Goods (FA and AA), Japan: automatic approval (AA goods), 313, 338; criteria for foreign exchange allocation, 324–27; FA goods (1953–59), 318–20, 338; foreign exchange allocation (FA goods), 313; foreign exchange budget for (1952–63), 317–18; imports under foreign exchange allocation system, 313–14

- Government: indicators measuring weakness in, 17–18; role in foreign exchange allocation system in Japan, 312–16
- Herfindahl index: in analysis of exchange rate pass-through effect in Taiwan, 213, 231; defined, 213n4
- Hong Kong Monetary Authority (HKMA), 406–7
- Human capital, East Asian and Latin American economies, 149
- Income distribution: relation of resource endowments to, 139-51
- Indonesia: dollar and yen weights in determination of rupiah, 194–95; effect of yen appreciation/depreciation on rupiah (1980s, 1995), 200–204; effect of yen–U.S. dollar on rupiah, 197–98; exchange rate arrangements and movements (1980–95), 188, 191
- Inflation: Mexico (1977–82), 72–74; strategies in developing countries to lower, 2
- Information, asymmetric: in international borrowing and lending, 66-67
- Integration, economic: among East Asian countries, 185
- Interest rates: Korean uncovered interest differential, 287-89; trend of Korean real, 290
- International Monetary Fund (IMF): standby arrangement for Thailand (1979–90), 78–79
- Investment: Japan's wool-spinning industry under foreign exchange allocation system, 333-34

Japan: control of foreign trade, 311

Korea: capital flows (1980–95), 286–91; dollar and yen weights in determination of won, 194; effect of joining currency bloc, 278–79; effect of yen appreciation/depreciation on won (1980s, 1995), 199–204, 206–8, 237–38; effect of yen–U.S. dollar fluctuations on won, 196–98, 237–38; exchange rate arrangements and movements (1980–95), 188–90; exchange rate management (1970–95), 235–40; exchange rate policy and regimes (1955–present), 269–78; exchange rate regimes (1995–present), 272; implications of potential unification, 279

- Latin America: current account and REER in selected countries (1970–95), 67–74, 79–83; economic performance in selected nations (1870–1990), 133–34; effect of resource endowments on exchange rate, income distribution, and growth, 139–51; resource endowments of selected countries, 136–37
- Learning by doing, resource-rich and -poor countries, 146-47
- Lending, external: to East Asian countries (1976–86, 1990–95), 67–68, 83–85; to Latin American countries (1977–82, 1990–95), 67–74, 79–83
- Macroeconomic policy: East Asian countries, 58; role in transmission of speculative currency attacks, 31, 49–50, 54–55
- Malaysia: dollar and yen weights in determination of ringgit, 194; effect of yen appreciation/depreciation on ringgit (1980s, 1995), 200–204, 206–8; effect of yen–U.S. dollar on ringgit, 197–98; exchange rate arrangements and movements (1980–95), 188, 190
- Mexico: effect of currency crisis (1994), 30-31
- Ministry of International Trade and Industry (MITI), Japan: political pressures related to foreign exchange allocation, 324, 338; regulation of wool-spinning industry, 327–28; role in foreign exchange allocation system, 314, 316, 318, 320–22, 338 Moral hazard, 66–67

PCM. See Price-cost margin (PCM)

- Petrochemical industry, Taiwan: characteristics and description of, 213, 216–17, 221, 228; destinations of exports, 216, 218–19t
- Philippines: dollar and yen weights in determination of peso, 195; effect of yen appreciation/depreciation on peso (1980s, 1995), 200-205; effect of yen-U.S. dollar on peso, 197-98; exchange rate arrangements and movements (1980-95), 188-89, 191-92
- Portfolio diversification model, 64-66

PPP. See Purchasing power parity (PPP)

Price-cost margin (PCM): derivation of impact on exchange rate, 226–28; elasticity in relation to weighted exchange rate, 221–22; in pricing behavior of Taiwanese petrochemical industry, 215–17

- Price levels: with changes in labor productivity, 124–25; in choice of exchange rate regime, 1–2; Japan's wool-spinning industry under foreign exchange allocation, 329–34; model of economic shocks to Japanese, 358–61; relation in Taiwan to exchange rate (1985–95), 381–82; relation of domestic price to exchange rate behavior, 4; relation to nominal exchange rate in PPP theory, 384
- Productivity: in Balassa-Samuelson hypothesis, 110, 117, 124–25, 129; growth in manufacturing sector, 147; growth in resource-poor countries, 146–47
- Purchasing power parity (PPP): concept (Cassel), 355, 357; concept (Dornbusch and Frenkel), 357; nominal exchange rates in theory of, 377–78; nontradables related to countries lacking, 240; rate of change in nominal exchange rate, 384; short-term, 356; statement of, 159; testing for doctrine of, 166, 168–69; tradable and nontradable goods, 355–56; in tradable goods (Balassa-Samuelson hypothesis), 129–31; yen-dollar exchange rate under, 355–56
- Rents, Japan: to firms under foreign exchange allocation system, 324–27, 338; under foreign exchange allocation system, 318– 24, 338
- Resource allocation, intertemporal: with current account imbalance, 59
- Resource endowments: analysis of effect on exchange rate, income distribution, and growth, 139–51; differences by region in, 136–39; relation to real exchange rates of, 4
- Risk aversion: model of international portfolio diversification, 64–66
- Singapore: dollar and yen weights in determination of Singapore dollar, 194; effect of yen appreciation/depreciation on Singapore dollar (1980s, 1995), 199–204, 208; effect of yen–U.S. dollar fluctuations on Singapore dollar, 197–98; exchange rate arrangements and movements (1980–95), 188, 190
- Smithsonian Accord (1971), 345

- Solvency: with current account imbalance, 60-61; definition of intertemporal current account, 59
- Speculative attacks on currency: effect under certainty and uncertainty, 33–34; financial crisis derived from, 52; Mexico (1994–95), 54; simultaneous, 31; spread to and impact on other countries, 29–35. *See also* Contagion; Transmission, international
- Stationarity: testing for restriction among four countries, 172-74
- Sustainability indicators, 105
- Taiwan: appreciation of NT dollar against U.S. dollar (1986–89), 380; development of exchange rate system, 379–80; economic indicators for external sector, 211–12; export pricing of petrochemical industry, 214–25
- Tequila effect, 30-31, 52-53
- Thailand: dollar and yen weights in determination of baht, 195; effect of yen appreciation/depreciation on baht (1980s, 1995), 200-204; effect of yen–U.S. dollar on baht, 197–99; exchange rate arrangements and movements (1980–95), 188, 192
- Trade: control in Japan using foreign exchange allocation policy, 311-24,

339–40; East Asian intraregional, 185–86; economic indicators for Taiwan's external sector, 211–12; liberalization in Japan (1960), 318; patterns matched to resource endowments, 136–38; post–World War II wool-spinning industry in Japan, 327–28; PPP in traded goods (Balassa-Samuelson hypothesis), 129–30; role in transmission of speculative currency attacks, 31–32, 41–50; terms-of-trade in East Asian and Latin American countries (1970s–95), 85–98; U.S. declining share in international, 185–86

- Trade policy: control in Japan of foreign trade, 311; East Asian countries, 58; for Japan's wool-spinning industry under foreign exchange allocation system, 329–34; in Japan under foreign exchange allocation system, 312–27; liberalization in Japan (1960s), 311, 334
- Transmission, international: of currency crises, 29–31; in test for contagion in foreign exchange markets, 49. *See also* Contagion; Tequila effect
- Wool-spinning industry, Japan: history, 327–29; rents under foreign exchange allocation system, 329–34
- World Bank: structural adjustment loans to Thailand (1979-90), 78-79