Subject Index

Absorption:
  analytical approach, 372–73
  balance of payments and, 298
  effects of, 297, 329
  income and, 222, 225
Adjustment policy, 2–6, 43, 152
Advance deposits, 150, 157
Africa, 293, 348. *See also specific countries*
  agricultural problems, 1
  BCEAD system, 349, 350, 352
  CFA group, 349
  classification of countries, 348
  consumer price index, 356
  East African common market, 293
  Franc Zone, 348
  nominal vs. real rates, 356t
  Sterling Zone, 335
  West African Monetary Union, 8–11, 333–67
Agricultural exports, 145, 267
Allocation, 158, 346
Announcement effect, 303
Arbitrage, 203–4
Argentina, 144–47, 201, 414–15, 422
  banks in, 177
  capital controls in, 215
  debt of, 4
  exchange rates in, 151
  inflation in, 28, 30–34
  liberalized economy of, 6–7
ARI process, 309
Arms market, 82
Asset market, *See* Money market
Attitudes. *See* Expectations
Auction markets, 145
  devaluation and, 154
  prices and, 302
  taxation and, 154
Autoregressions, 31

Balance of payments, 4, 48–52, 365
  absorption and, 298
  analytical methods, 372
  automatic adjustments, 357
  capital controls and, 67–70
  crises and, 13–14
  deficits in, 41, 207
  devaluation and, 297, 301
  domestic credit and, 207
  energy crisis and, 137
  equilibrium models, 52–67, 73
  multiple exchange rates and, 166
  speculation and, 4
  surplus, 8, 45, 217, 235
Banking, 186. *See also specific countries, systems*
  bonds and, 196–97
  deposits, 7, 184, 188, 193, 200
  central, 7–8, 39–40, 145, 349, 350, 352
  crawling peg and, 203
  commercial LCDs, 19
  credit process, 3, 18, 19, 27–28
  deposits in, 7, 183–84
  financial intermediaries, 199

Banking (*continued*)
free, 7, 177, 186
insurance for, 7
international system, 7
liberalization and, 179, 195, 287
microeconomics of, 178
model of, 178, 182
nationalization of, 7
nominal rate and, 298
reserves, 7, 19, 197–99
welfare effects, 177–98
Barbados, 348
Basket pegs, 296, 351, 363
BCEADO. *See* Africa, BCEADO system
Bilateral exchange rate, 335
Black markets, 143, 169
Bonds:
banking and, 196
demand for, 184
exchange certificates, 156
foreign buyers, 29
inflation and, 200
international market, 7, 190, 192
LCD markets, 18
monetizing, 197
output value of, 180
social welfare and, 189
zero-interest, 7
Boom periods, 224, 393
advance deposits and, 157
appreciation and, 255
coffee and, 239
commodity markets and, 265
effects of, 156
energy prices and, 398
export prices and, 235, 265
inflation and, 254
1972–74 period, 155
resource-based, 235
spending effects, 245
Borrowing. *See also* Credit
expectations and, 231
foreign, 18, 182, 213, 220
welfare and, 230
Brazil, 415
indexation in, 142
Bretton Woods system, 329, 348
British pound, 371
Bubble solutions, 72
Buying rates, 6

Cameroon, 349, 355
Capital account, 202, 213, *214*, 224
Capital goods, 283, 289
Capital markets, 143. *See also* Balance of payments; Banking; Money market
controls for, 46, 67–70, 87
demand in, 8
devaluation and, 7, 32
domestic markets, 6–7
indexation and, 136
international, 12, 82–83, 376
LCDs and, 29
mobility in, 8, 168, 181, 222, 375
prices in, 6–8
Central Africa, 348
Certificates of exchange, 156, 239–40
Chad, 348
Characteristic roots, 76, 225
Chile, 143, 201, 230, 414–15
capital controls in, 215
economic liberalization of, 6–7
free banking in, 177
Cobb-Douglas function, 21, 92, 127
Cocaine, 261
Coffee, 8, 236–54, 418
Colombia, 8–11, 331
cocaine and, 261
coffee in, 235–66
export booms, 9, 236
money creation in, 249
Commercial firms, 27–29, 35
Commercial policies, 43–48, 145
Commodities, 145, *See also specific commodities, markets*
bank credit and, 18
commercial policies, 43–48
composite, 387–88, 407
dollar's worth units, 390
numeraire, 394
world price of, 390
Competition, 237
crawling peg and, 330
devaluation and, 3, 10, 17, 296
imperfect, 330
wage indexation and, 25
Composite commodities, 387–88, 407
Computer age, 393
Consumer demand. *See also* Consumer price index
devaluation and, 3–4
elasticity of, 6
LDC imports and, 25
model of, 205
utility function, 179

Consumer price index (CPI), 268, 396
  developing countries and, 421
  indexation and, 25, 85–90
  monetary policy and, 111–12
  theory of, 12
  wages and, 5, 25, 89–90, 268
Consumption basket, 3, 25, 34
  foreign food, 34
  imports in, 3
  wage indexation and, 25
Contract(s):
  multiyear, 5
  optimal length of, 305, 327
  price-setting and, 10
  wage, 25
Contractionary effects, 12–41, 152
Cost of living, 155
Cost-push effects, 303, 331
Costa Rica, 330
CPI. *See* Consumer price index
Crawling peg regimes, 2, 4, 10, 28–35, 243–44, 296, 306, 351
  in Colombia, 239
  competitiveness and, 330–31
  conference on, 330
  devaluation and, 251
  dual rates and, 70
  export prices and, 263
  inflation and, 30–34, 263, 329
  model for, 201–26, 242
  neutral, 230
  preannounced, 18–19
  reduction in, *33*
  resource allocation and, 328
Credibility, 224
Credit:
  commodity supply and, 18
  control of, 67–70
  devaluation and, 27–28
  domestic, 8
  reserves and, 19
  rule, 208
  volume available, 23
Crisis, of 1982, 170
Curb markets, 18, 20, 27–28
Current accounts, *61*, 171, 286
Cycling, of economy, 211

Dairy products, 320
Deadweight losses, 152
Debt. *See* Credit; Foreign debt; Government debt
Deficits, 152
  adjustment policies, 152
  depreciation and, 8
  devaluation and, 80
  domestic credit and, 8
  export prices and, 243
  government spending and, 67
  international, 144
  lagged base money and, 251
  pegging and, 351
Deflation, 23, 144, 202, 216–17, 224, 378
Demand, 44, 72, 372
  deflationary effects on, 23
  demand curves, 390, *391*, 409
  devaluation and, 17–18, 152
  elasticity of, 6, 38
  expansion of, 338, 347
  interest rates and, 8
  Krugman–Taylor contraction, 34
  nontradables and, 206, 210
Dependent economy model, 44, 82
Deposits, 7, 19, 184, 188, 193, 200
Depreciation, 143. *See also* Devaluation
  capital mobility and, 221
  of dollar, 155
  expectations of, 231
  expenditure-switching effect, 210
  floating rates and, 41
  foreign debt and, 30
  inflation and, 202
  nominal devaluation and, 18
  preannounced, 7–8
  rate of, 8
  supply shock and, 342
Deutschmark, 371
Devaluation, 144, 239, 303
  aggregate supply and, 12–14
  auction system and, 154
  balance effects, 40, 298
  contractionary effects, 3, 13, 22–28, 220
  crises and, 13, 373
  deficit and, 80, 301
  demand and, 153
  disadvantages of, 289
  disinflation and, 202, 216–17
  effects of, *24*, 217–18
  employment and, 2
  expectations model, 4, 77–81, 301
  expenditures and, 9
  export prices and, 240
  foreign debt and, 29–35
  foreign demands and, 191
  foreign exchange and, 217

Devaluation (*continued*)
imports and, 281
interest rate and, 221
investment incentives, 282
liberalization and, 269, 286
money growth and, 40
neutrality of, 220
nominal, 18, 30–34
nontradables and, 297, 314
optimal, 7
output and, 2
as policy tool, 2
preannounced, 7–8
price setting and, 295–331
short-term, 152
spending cuts and, 284–85
stabilization and, 286
stagflationary effects of, 267–68, 298
steady-state analysis, 177
sudden, 301
unanticipated, 301
Developing countries, 87, 254, 399, 414. *See also country by name*
case studies, 8–11
commercial liabilities of, 29
fluctuating rates in, 417
foreign debt in, 29–35
real exchange rates, 423
stabilization policies in, 34, 267, 350
Disinflation, 23, 144, 378
capital account and, 224
devaluation and, 202, 216–17
Distribution, price and, 144
Disturbances. *See* Shocks
Dollar:
Deutschmark and, 371, 378
dollar-price deflator, 396
dollar's worth unit, 376, 387–94, 404
drachma and, *297*, 318t
inflation rates, 396, 416
as key currency, 399
as peg, 296
pound exchange rate, 371, 378
world dollar price level, 414
Domestic price deflator, 394–96, 405, 421
Dornbusch model, 420
Dual rate systems, 70, 143. *See also* Multiple rates
model of, 171
Dutch disease model, 254, 382, 389, 392
spending effects, 263
literature, 9, 44
Dynamic systems, 57–62
solution of, 65

Earnings, retained, 19
East African common market, 293
East Caribbean currency authority, 333
Economic policy, 42–88
Efficiency, costs and, 389
Elasticities, 341
balance-of-payments and, 297
demand and, 392, 409
estimates of, 395
investment and, 282
of labor, 5, 91, 94, 104, 337
method of, 50, 372
of money demand, 135
pessimism about, 293
size of country, 337
of substitution, 272, 281, 284, 289–90, 293
Employment, 219, 293. *See also* Labor market; Production; Wage(s)
devaluation and, 2
exchange rate and, 88, 219
stabilization policy, 90
value added and, 273
wages and, 99–100, 135–36, 222
Energy:
crises, 89–142
price of, 398
Envelope theorem, 180
Equilibrium conditions, 225. *See also* Shocks
analysis of, 25, 48–50, 52–57
assumptions of, 337
balance of payments, 52–81
general equilibrium problems, 389
money market, 71–72
non-Walrasian, 302
nonstochastic, 93
oscillatory, 202
partial equilibrium treatment, 419
stability conditions, 212
tariffs and, 381
undistorted, 94
Euler equation, 162
European monetary system (EMS), 333
Exchange certificates, 156, 239–40
Exchange rates, nominal, 9–11, 55, 301. *See also* Exchange rates, real; Pegging; *specific countries, policies*
asset stocks and, 61

auction market and, 154
bilateral, 420
commercial policies and, 43–88
crawling peg, 201, 203, 223, 236, 239, 244, 251, 265, 296
deflated, 12
depreciation and, 18
deprotection, 237
determination of, 72
devaluation equation, 249
discrete changes, 10, 303, 305, 327
disinflation and, 220
equilibrium and, 72
fixed, 4, 146, 342–44, 346, 383
floating, 12
freely flexible, 71
inflation and, 30–34, 327
Keynesian effects, 9
market conditions and, 72
monetary policy and, 13–14, 70–81, 236, 265
multiple rates, 6, 70, 148, 419
political factors and, 301
preannounced, 199
predetermined, 177–98
prediction with, 406
prices and, 299–300
pseudo union, 334
quantum effect, 327
rate of change, 72, 301
reluctant adjustment, 327
research in, 13
shocks and, 12, 301, 338
signals conveyed by, 230
spreads, 143
stabilization programs and, 10
Exchange rates, real, 4, 11–12, 43–88, 376–422. *See also* Exchange rates, nominal
capital controls and, 67–70
central banks and, 298
cocaine and, 261
coffee model, 237, 241–54
commercial policy and, 44, 255
concepts of, 401, 403–5
defined, 12, 44, 86, 120, 209
determinants of, 13, 43–55, 423
devaluation and, 39, 219, 238t
in developing countries, 235–66
dynamic model of, 57–62
economic adjustment and, 371–423
employment and, 219
equilibrium, 379–83
exchange certificates and, 240
export prices and, 236
fiscal policy and, 51, 62–67
foreign exchange markets and, 394, 402
global disturbances and, 338
gradual change of, 301
guarantees, 143
income effects, 412
inflation and, 241–54
interest rates and, 209
Kouri model, 86
for LDCs, 423
liberalization and, 201–26
macroeconomic effects and, 199
market determined, 146
monetary policy and, 70–81
monetary unions and, 333–59
nominal rate effects, 10, 298
nontradables and, 393
oscillation and, 230
price flexibility and, 337
private assets and, 57–62
randomness, 309
ratio form, 403–4
as self-predictor, 309
speculation and, 4
trade balance and, 48–52
Expansion, monetary, 157
Expectations:
announcement effects, 303
balance-of-payments and, 297
contract length and, 306
formation of, 229, 302, 314
inflationary, 301
operator for, 247
public beliefs, 224
rationality of, 58
seigniorage, 208
Expenditures. *See* Spending
Export(s), 48, 263–64, 292
agricultural, 267
boom in, 8, 235
devaluation and, 153
disincentives, 397
diversification in, 293
Dutch disease and, 389
multiple rates and, 43
prices of, 12, 242, 382, 387
promotion for, 261
selling rates, 145

Export(s) (*continued*)
shocks and, 384
supply curves for, 379, 409
taxes on, 12, 147, 379
terms-of-trade, 406
Exporters, selling rates, 145

Federal Reserve System, 195
Federal Deposit Insurance Corporation (FDIC), 195
Fiscal policy, 45. *See also* Government spending; Taxation
balance of payments equilibrium and, 64
credit creation and, 243
expansionary, 67
public belief and, 224
real rate and, 62–67
research in, 14
sterilized intervention, 46–47
Fixed-peg rates, 11
Flexible rates, 73–74, 146
Floating rates, 18, 351
Food industry, 317, 319, 322, *324–25*. *See also* Commodities
Foreign assets, 4, 68–70, 75–76
Foreign borrowing, 8, 381
Foreign capital, 179
accumulation of, 172
influx, 82
Foreign currency:
demand for, 374
excess demand for, 409–10
supply curve, 379
tariffs and, 379
Foreign debt, 14, 18, *31*, 87. *See also specific countries*
crisis and, 1, 6
devaluation and, 29–35
financing of, 47
interest on, 54–55
optimal level of, 230
repayment of, 80
Foreign demand, 189
Foreign deposits, 179
welfare loss and, 194
Foreign exchange markets:
borrowing and, 8, 381
demand curves for, *391*
sterilized intervention, 73–81, 87
Foreign price deflator, 421–22
Foresight, 229. *See also* Expectations
Franc Zone, 333, 348, 350, 355–56, 363
France, 11, 336, 348
Free banking, 177
Free market, 172
Friedman rule, 182
Future markets, in LDCs, 418

GDP. *See* Gross Domestic Product
Germany, 336
GNP. *See* Gross National Product
Goods. *See also* Commodities; Nontradables; *specific goods, sectors*
aggregate demand, 21
composite, 387–88, 407
domestic vs. foreign prices, 44
heterogeneity in, 302–3
market equilibrium, 21–22, 48–52, 71
in models, 203
nominal prices, 43–44
nontradables, 187
price adjustments, 10
Government debt, 54–55, 73, 76. *See also* Deficits
private spending and, 81
repayment of, 80
Ricardian theory, 220
Government lending, 73, 76
Government revenue, 148, 184
Government spending, 54, 86, 269. *See also* Deficits
capital goods and, 283
crowding-out effect, 269
cuts in, 285t, 289
devaluation and, 268, 284
domestic goods, 63
financing of, 47, 55
terms of trade and, 289
Gradualist solution, 301
Great Britain, 138
Greece, 8–11, 295–331
adjustment policy, 301
devaluation in, 296
econometric analysis, 306
exchange rates in, *296–97*, 309t
food prices, *322*, 323t, *324–25*
Green revolution, 393
Gross Domestic Product (GDP), 378
deflator for, 395–96, 399, 405–6, 421
wholesale price index and, 415
Gross National Product (GNP), 89–90, 92, 187, 378, 405

deflator for, 406
indexation and, 5, 132, 136
Guinea, 366

Haiti, 415, 417
Heterogeneity, of products, 302–3

IMF. *See* International Monetary Fund
Imports, 146. *See also specific products, sectors*
currency demand and, 34, 374
devaluation and, 3, 23–25
excess-demand curve, 394
intermediate, 18–20, 23
luxury, 146
multiple rates and, 43
shocks and, 384
taxes on, 43, 147, 379–80
terms-of-trade, 406
Incentives, 148, 267–92
Income:
balance of payments and, 4, 52–56
demand for money and, 261
disposable, 21, 30, 32–33
effects, 410
expected change, 305
income-expenditures approach, 372
interest and, 56
multiple rates and, 6
nominal, 101–2
optimal money supply and, 111
private, 52, 59
spending and, 4, 10, 45, 53, 74
wage indexation and, 101–2
Indexation, 268, 305, 396. *See also* Wage indexation
deflation and, 397
devaluation and, 27
equation for, 273
industrial production and, 323
nominal income, 101
optimal, 5, 113
prices and, 5, 12, 89–90, 102–5, 112
ranking in, 103
rules for, 5
shocks and, 327
spending and, 286
supply curve and, *133*, 274, 278
trade balance and, 281
welfare loss and, *100*
Indonesia, export booms, 236

Inflation, 241–54, 397
aggregate supply and, 28
banks and, 179
coffee model, 244
demand for money and, 247
devaluation and, 7–8, 30–34, 178, 193
differential rates of, 356, 371
disinflation, 217, 222, 224, 416
dynamic model of, 201
export booms and, 8–9
export prices and, 265
foreign, 21, 377, 405
foresight and, 206
general, 398
hyperinflation, 302
imported, 414
income and, 223
indexation and, 160
interest rates and, 11, 82, 95
optimal rate of, 7, 178, 182
preannounced devaluation and, 30–34
rates of, 416
sterilization and, 235
tradables and, 247
unemployment trade-off, 132
very rapid, 403
welfare and, 194
wholesale prices and, 415
world, 402
Information costs, 305–6
Inputs, intermediate, 9
Instability:
capital account and, 255
dynamic, 47
Insulation, of sectors, 171–72
Insurance, for deposits, 193, 195
Interest rates:
demand for money and, 261
devaluation and, 3–4, 78–81
development and, 8
domestic, real, 57
domestic spending and, 45
effects, 171
expenditure-based, 223
foreign, 19, 134
foreign debt and, 29, 54–55
global disturbances, 338
liberalization and, 213
optimal nominal, 178
preannounced devaluation and, 32–34
steady-state utility and, 180

Interest rates (*continued*)
subsidizing, 182
UMM and, 23
world security markets, 48, 53
Interior solutions, 180–81
International banks, 195
International Monetary Fund (IMF), 1, 17, 143, 277
exchange practices and, 165
financial statistics, 400
multiple currency practice of, 144
SDR units, 399
International trade theory, 375
Investments, stabilization and, 282
Israel, indexation in, 142
Ivory Coast, 335, 348, 352–53, 355, 365

J-curves, 297
Johnson-Hause effect, 328

Kenya, 8–11, 267–92, 348
booms in, 236
devaluation in, 9–10
economic data from, 276–78
exports of, 290
government spending by, 289
stabilization in, 287
terms-of-trade deterioration, 287
trade balance of, 291
Keynesian models, 3, 9, 22
unemployment and, 22
Keynes-Wicksell models, 22
Krugman-Taylor contractions, 17, 34

Labor market, 5. *See also* Wage(s)
contracts, 90–91, 138
costs of labor in, 26
distortions in, *96*
elasticity in, 141
equilibrium in, 89–142
Lewis model, 269
monetary policy and, 5
purchasing power of labor, 153
shocks to, 89–142
supply, 336
unions and, 299
welfare triangles, 132–36
Lag operator, 162
Large numbers, law of, 179, 188, 191
Latin America, 143–44. *See also country by name*
Southern Cone of, 5–8, 201–26, 415, 423
Law of large numbers, 179, 188, 191
Law of motion, reduced-form, 209
LCDs. *See* Developing countries
Least-squares estimation, 261
Leisure, 187
Lending, forced, 157
Lerner symmetry theorem, 149–50
Less developed countries (LDCs). *See* Developing countries
Lewis-type structure, 269
Liability, in models, 19
Liberalization programs:
aspects of, 287
of capital account, 202, 213, 224
crawling pegs and, 418
deflationary effects, 213
devaluation and, 268
flexible rates and, 417
long-run depreciation, 215
macroeconomic effects, 202, 224
reserve requirements, 200
stabilization and, 7–8, 201–26, 286–88
welfare implications of, 200
Linear approximations, 211, 225, 273
Liquidity, 30, 351
of bonds, 196
cost of, 195
devaluation and, 220
full, 178
international, 251
services, 191
Loans, 73, 76. *See also* Foreign debt; Interest rates
curb market, 18–19
foreign, 29
UMM rates, 20
Logarithmic deviations, 337
Log-linear equations, 44
Loss function, 94, 157, 162
Lump-sum transfers, 180
Luxury goods, 154 *See also* Exports; Imports

Macroeconomics, 152–57, 166, 334. *See also specific models, sectors*
Madagascar, 355, 359
Mali, 350, 355, 366
Manufacturing, 145. *See also* Production
Marginal costs, 304, 407
Marginal utilities, 179
Market Code, 322
Market splitting, 146

Markov process, 158, 162
Marshall-Lerner condition, 51, 210
Mauritania, 348, 359, 366
Maximin strategy, 194
Metzlerian behavior, 223
Models. *See also specific models, processes, sectors*
  goods production in, 203
  Keynesian, 3, 9, 22
  monetary unions in, 334–35, 358
  under perfect foresight, 202
Monetary policy, 46. *See also* Monetary unions; Money
  allocation rule, 5, 346, 357, 364
  equilibrium, 105
  exchange rate policy and, 70–81
  export booms and, 9
  flexible rates and, 71–72
  monetary approach, 372–73
  research in, 12–14
  sovereignty issues, 351
  targeted, 91, 111–13
  wage index and, 105–13
Monetary unions, 10–11, 364
  model of, 334–35, 358
  two-tier, 345–47
  West African, 8–11, 333–67
Money. *See also* Monetary policy; Money market; Money supply
  asymmetric allocation, 337
  banking reserves, 7
  creation equation, 249, 262
  domestic demand for, 4, 192, 242, 261, 298
  foreign demand for, 179, 189, 192, 195
  foreign exchange value of, 73–74
  growth of, 239, 245, 249
  high-powered, 187
  illusion effects, 17, 28
  inelastic demand, 182
  liquidity services, 191
  marginal utility of, 181
  market equilibrium, 205, 207
  monetary accommodation rule, 5
  near-money, 363
  private demand, 21
  random shocks and, 192
  stochastic demand, 194
  supply rule, 109
  velocity, 32
Money market:
  domestic, 71
  equilibrium, 20, 71, 106–7
  interest rates and, 48
  optimal supply, 107–10
  unofficial (UMM), 18, 20, 27–28
  wage indexation and, 105–13
Money supply:
  cuts in, 40–41
  domestic, 46
  fixed, 3
  foreign capital, 32
  M-2 stock, 351
  nominal, 46, 70–81
  policy-determined levels, 73
  supply rule, 109
  targeting, 90
Monopolists, 302, 305
Multiple rates, 6, 43, 143–73
Multiplier effects, 34

National Bureau of Economic Research, 2, 13
Nationalization, of banks, 7
Natural gas, 382, 398
Niger, 348, 350
No-banks model, 187
Noise, in price change, 158, 162
Nominal exchange rate. *See* Exchange rate, nominal
Nontradables, 245, 314, *317*
  borrowings and, 381
  foreign, 405
  price level of, 388, 395
  tradables and, 400, 403, 420
  wholesale price index, 317
Normality assumptions, 182
Numeraires, 395

Offset coefficient, 351
Oil, 398, 422
  dollar prices for, 415
  energy crisis, 89–90
  imports, 19–20
  products from, 277, 398, 422
Orcutt analysis, 327, 329
Oscillations, convergence and, 244
Outflow, trade balance and, 53
Output. *See also* Gross Domestic Product
  aggregate decline, 2–3
  determination of, 92
  disaggregation of, 270

Output (*continued*)
elasticities of, 115, 267
inflation and, 30–34
reduction with devaluation, 12–41
supply and, 22
Overlapping-generations model, 179
Overvaluation, 292

Panama, 415, 417
Parastatal companies, 269
Pass-through, 327, 330
Pegging. *See also* Basket peg; Crawling peg regimes
collective, 333–62
to franc, 363
model of, 335–62
to single currency, 365
Perturbations. *See* Shock(s)
Peso, 145, 264
Petroleum products, 277, 398, 422
Phillips curve, 336
Political factors, 301
Polyurethane, 267
Population dynamics, 178, 293
Portfolios, 204
balance models, 75, 211
equilibrium and, 213
fiscal expansion and, *66*
private, 19, 212
real rates and, 57–62
shifts in, 7–8
PPP. *See* Purchasing Power Parity
Predictions. *See* Expectations
Preferential rates, 148
Prices, 382
boom periods, 155
commodities, 43–88, 155
controls on, 299, 324
cost-oriented, 306
devaluation and, 39
domestic goods, 4, 19
exports and, 235–66
foreign, 4, 134
gradual change in, 21
index of, 12, 136, 399–400
international, 43
law of one price, 330
market-determined, 6–8
Markov process for, 162
monopolistic, 10, 299
optimal adjustment to, 162
rates and, 43, 300
reallocation effect, 328
real wages and, 89
relative-price effect, 219
responsiveness of, 153
rigid, 3, 11
setting of, 329
speed of adjustment, 327
sticky, 27, 44, 72
value-added index, 5, 89–90, 102–5
wage indexation and, 113–20
world, 43, 147
Private sector, 8, 19, 45, 212
Processing, protection for, 149
Production. *See also* Labor market
Cobb-Douglas function, 92
costs of, 23, 303
exchange rate changes and, 170
function for, 204, 271–72
in models, 203
patterns of, 156, 302
possibilities of, 48
process of, 270
shocks to, 89–142
structure of, 50
technology and, 21
Profits, maximized, 273
Protectionism, 150, 398. *See also* Tariffs
of domestic manufacturing, 291
effective, 148–50
multiple rates and, 147
quotas and, 150, 153
rates of, 389
Pseudo-exchange rate union, 334
Public belief, 224
Purchasing Power Parity (PPP), 134, 351, 356, 358, 389

Q-ratio defined, 282
Quantum effect, 327
nonlinearity and, 330
Quotas, 150, 153
tariffs and, 153

Ramsey problem, 389
Random-walk process, 158, 287, 309
Raw materials, 392
Real exchange rate. *See* Exchange rate, real
Reallocation effect, 328
Recursive models, 336
Redistribution, 160
Regulatory agencies, 300

Reserves, monetary, 67, 144, 155, 168, 210
bonds as, 7
credit ceilings and, 19
deficit adjustment and, 152
drastic increases in, 352
export boom and, 9
interest-bearing, 197, 223
international, 209, 239t
liabilities of banks and, 199
Resource allocation, 159–60
Revenue, 71. *See also* Taxation
Ricardian equivalence, 67, 220, 223
Risk:
aversion of, 121
in models, 199–200
Robustness, of models, 178, 328, 402

Savings, private, 67, 210
SDR. *See* Special drawing rights
Securities markets, 18, 48. *See also* Portfolios; Stocks
interest rates and, 57
world, 53
Seigniorage, 208
collection of, 191
expectations and, 200
flow of, 189
from foreigners, 181, 193
from money creation, 181
Selling rates, 6
Senegal, 353, 355
Shock(s), 161, 376
adjustment to, *380*
aggregate, 302
commodity prices and, 388
defined, 93
effects of, 419
exchange rate and, 347, 423
foreign demands, 191
foreign interest rates, 108
global, 347
imported energy and, 109
to LDCs, 418
money demand and, 188, 192
multiple rates and, 156
nontradables and, 393
policy-induced, 11–12
real, 5
shock treatment, 300
stochastic, 89–139
supply and, 135, 342
terms of trade and, 286, 292
transitory, 121, 160, 166
types of, 134, 376, 378
unemployment and, 364
wages and, 5
world prices and, *160*
Simulation methods, 172
Small-country assumption, 203, 340–42, 388
South Korea, inflation in, 28
Southern Cone, 5–8, 201–26, 415, 423
Spain, policy in, 301
Special drawing rights (SDR), 329, 399, 422
Specie flow mechanism, 263
Speculation, in currency, 300
against exchange rate, 4
waves of, 375
Spending. *See also* Government spending
balance of payments and, 52–56
cuts, 268
domestic vs. foreign, 62–67, 82
government policy and, 44
income and, 45, 53, 81
money creation and, 71–72
nontradables and, 223
private, 59, 73–74
reduced, 23
Ricardian equivalence, 67
shifts, 44
effect of, 263–64
switching, 3, 152
Spillover, 157
Stability condition, 211
Stabilization programs, 2–6, 267–92
analysis of, 22
devaluation and, 9, 13, 17, 269
effect of, *280*
exchange rates and, 2
IMF and, 17
after liberalization, 7
model of, 267–71
program design, 289
stagflation and, 269
short-run effects, 270
volatility and, 355, 358
welfare losses and, *100*
Stagflation, 10, 267–92
devaluation and, 324
liberalization and, 287
Stationary-state solutions, 338
Steady-state analysis, 172, 177, 179
Steel, production of, 290

Sterilized intervention, 75–76, 81, 87, 157, 235, 262–64
Sterling Zone, 335
Stochastic assumptions, 188
Stochastic shocks, 89–139
Stocks. *See also* Portfolios
  seigniorage, 189
  shifts in, 7–8
Subsidies, 43, 147, 150
Substitutability assumption, 178, 337
Substitution, 372
  effects, 154, 407
  elasticity of, 272
  value added and, 290
Sudan, 348, 359
Supply. *See also* Commodities; Money supply
  bank credit and, 27–28
  devaluation and, 18–37, 39
  equations for, 274
  indexation and, *133*
  inflation and, 28
  shocks and, 89–142
Supply side analysis, 271–72
Sweden, policy in, 301
Switching, of expenditures, 152
Symmetry theorem, 149–50

Tablita experiments, 418
Tanzania, 292
Tariffs, 52, 147, 149, *380*
  domestic prices and, 44
  effects of, 389
  equilibrium rates and, 12, 379
  implicit, 6
  increases in, 60, 62
  multiple rates and, 6
  quotas and, 153
  reductions in, 6
  shocks and, *385*
  selective, 152
  taxation implicit in, 152
  uniform, 88
Taxation, 67, 147–49, 156. *See also* Tariffs
  advance deposits and, 157
  distortionary, 178
  effects of, 389
  endogenous change, 208
  export, 12, 379
  future, 67
  government debt and, 46, 81, 220
  imports and, 43, 147–48
  lump-sum, 73, 179
  multiple rates and, 150
  protection and, 150
  reductions in, 55–56
  subsidy structures and, 6, 147–48, 150
  on windfall gains, 156
Technological advance, 187, 397
Technology, fixed coefficients, 204
Terms of trade:
  deterioration of, 268, 287
  randomness of, 287
  variable, 406
Three-tier structure, 336
Time, in analysis, 377
Time-series work, 396, 406
Tobin model, 19, 282
Togo, 348, 352
Trade, 204. *See also* Balance of payments
  balance of, 53, 152, 281
  deficits, 3
  "dependent economy" model, 44, 49
  illegal, 261
  market-determined prices and, 6–8
  multipliers, 341
  two-country, two-commodity model, 44, 82
  trade policies, 397
Transfer(s), lump-sum, 71
Transfer problem, 381
Transversality conditions, 207
Triangular arbitrage, 342
Two-country, two-commodity model, 44, 82

UMM. *See* Unofficial money market
UMOA. *See* West African Monetary Union
Unemployment. *See also* Labor markets
  inflation and, 132
  Keynesian, 22
  multiple rates and, 6
Uniform rates, 146
Unions, 299, 303. *See also* Monetary unions
United States, 336, 348. *See also* Dollar
  wholesale price index, 400, 405, 415, 522
Units, dollar's worth, 387–94, 404
Unofficial money market, 18, 20, 23, 27–28
Uruguay, 201

capital controls in, 215
economic liberalization of, 6–7
Utility analysis, 179

Value-added index, 102–3, 271

Wage(s), 155. *See also* Wage indexation
contracts, 3, 5, 95
CPI and, 3
depreciation and, 153
employment and, 99–100, 135–36, 222
import prices and, 153, 270
inflation and, 8
inflexibility of, 203
perfect foresight and, 206
Phillips curve, 336
real product, 20
stabilization of, 91
stickiness of, 90
in unionized sector, 303
Wage indexation, 5, 9, 268, 281
alternative rules, 98–105
imports and, 18, 23–25
lag in, 137
monetary policy and, 89–142
optimal, 96–98
real, 23, 25–26
welfare implications, 91
Wartime factors, 302
Wealth. *See also* Income
allocation of, 19
accumulation of, 171
devaluation and, 39
Welfare, 334
criterion, 7
exchange rates and, 116–17
labor market and, 94–102, 115–16
loss computation, *100*, 122–26
monetary policy and, 89–90
money supply and, 110
pure credit regime, 184
targeting and, 111–13
wage indexation and, 91
West African Central Bank, 366
West African Monetary Union (UMOA), 8–11, 333–67
Wheat, 390
Whole price index (WPI), 421
Wholesale price index, 399
Windfall profits, 155
World Bank, 1, 277
exchange practices and, 165
multiple rate practices, 144
NBER conference, 2, 13
World Development Report, 287, 291
World price deflator, 42

Yen, dollar prices, 378

Zero-profit condition, 204, 208