

Thema: MAW_2017 - CZ and Latvia

erstellt von anonym am Sonntag 19. Juli 2020, 16:31

Hi Marcus,

could you please try to explain the mechanisms of the shock in the MAW_2017 exercise 3? We had the Poland and Lithuania example in the tutorial, but here we do have other data given and I'm a bit unsure about the role of the BIP-deflator.

Since Czech made a similar development, like Poland did in our example, I opted to assume that CZ had a flexible exchange rate regime, with external depreciation and a return to normal inflation. Latvia had fixed its exchange rate to the Euro and had therefore to undertake a longer process of internal depreciation before returning to GDP growth - Inflation also goes back to original level. Is that right?

But what about question 3e? I'm almost completely blank on this one. Did we do sth similar to it in the exercise? I would be grateful for any help and suggestions/hints.

Thanks

erstellt von Dr. Marcus Antonio Giamattei am Sonntag 19. Juli 2020, 20:15

Hi,

this is exactly the same development as we discussed it in the tutorial. Deflator is just a measure of inflation. One country does external depreciation via the exchange rate, the other internal depreciation with a fixed nominal exchange rate and changes in inflation.

Best, Marcus
