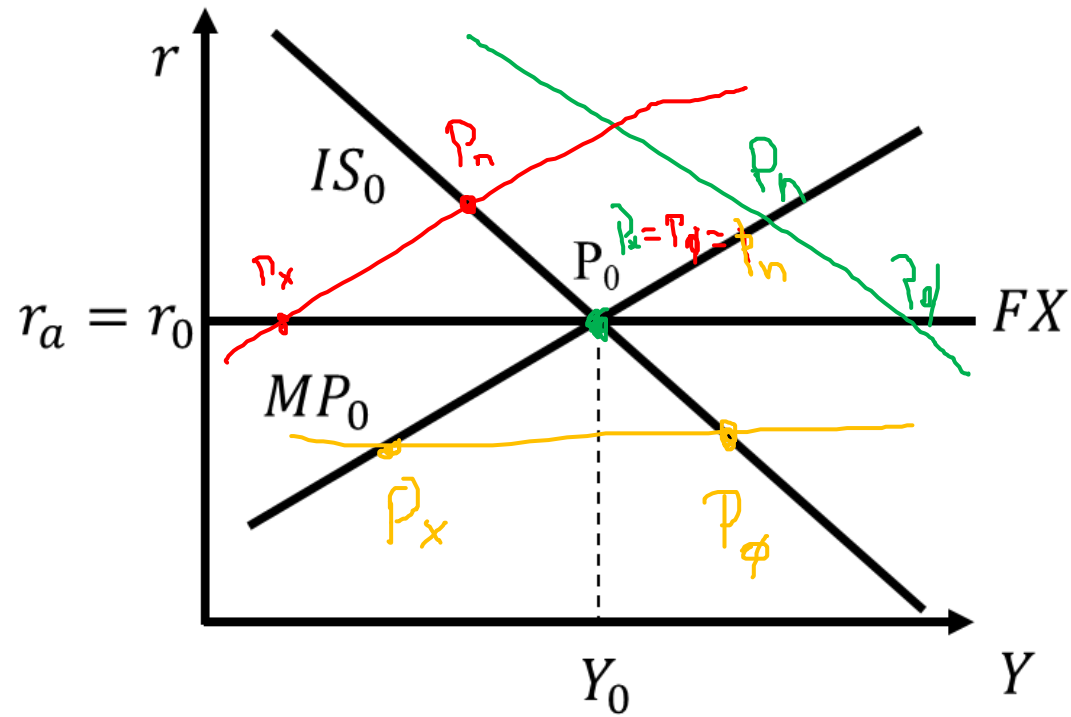
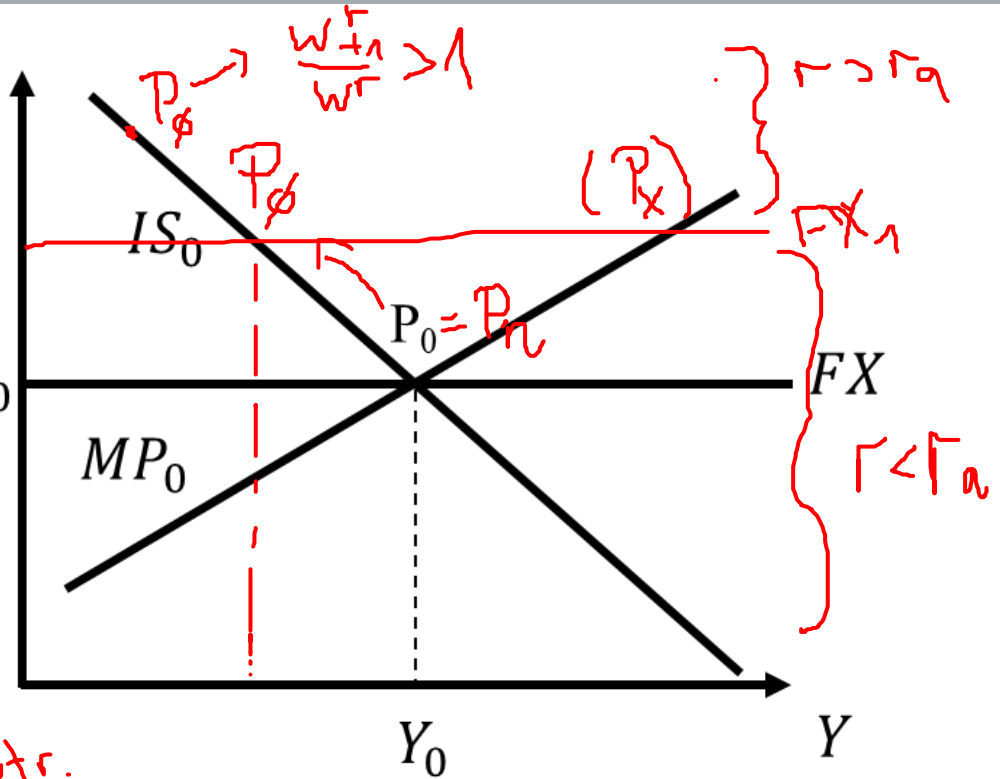
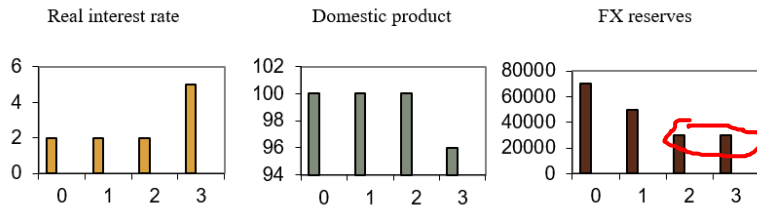


## ■ Different possibilities



# Problem 4.2



Period 1+2

$r_a > r$

$r_a \uparrow$   $r_a > r \Rightarrow \text{dem } \$ \uparrow$

CB:  $R \downarrow$   $F \uparrow$

fixed  $w$  with neutr.

$Y, r$  remain constant

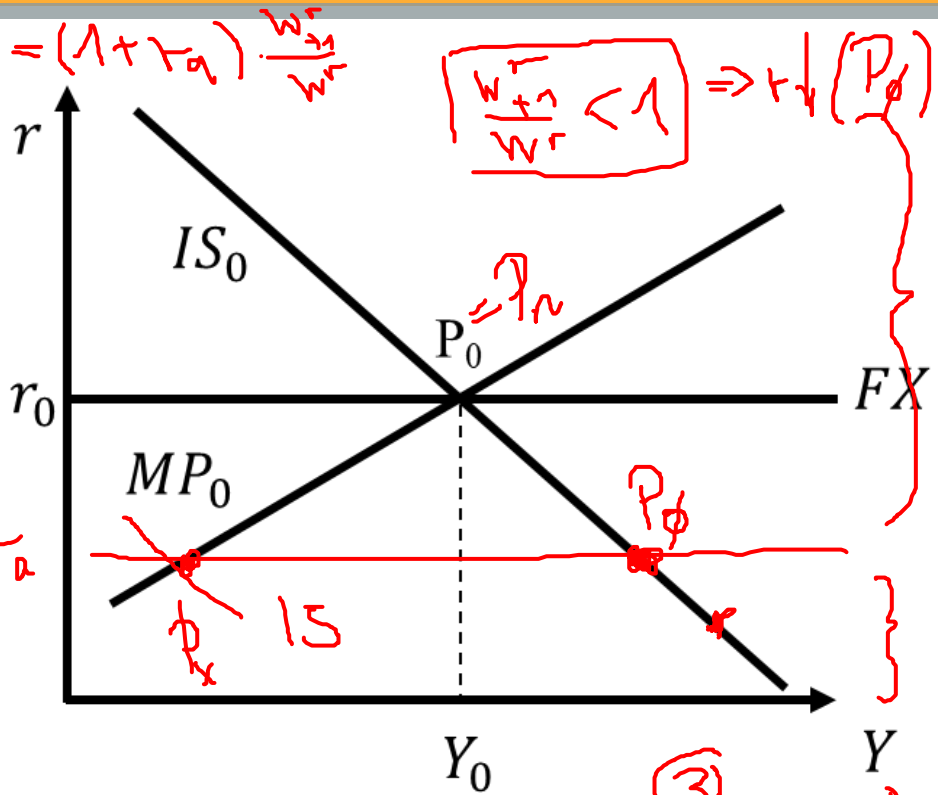
Period 3:

give up neutralization, because  $R=0$  too costly  
 Commercial banks less liquidity  $\Rightarrow r \uparrow \Rightarrow I \downarrow \Rightarrow Y \downarrow$   
 $r = r_a \Rightarrow$  no more pressure on  $w$ !

# Problem 4.3

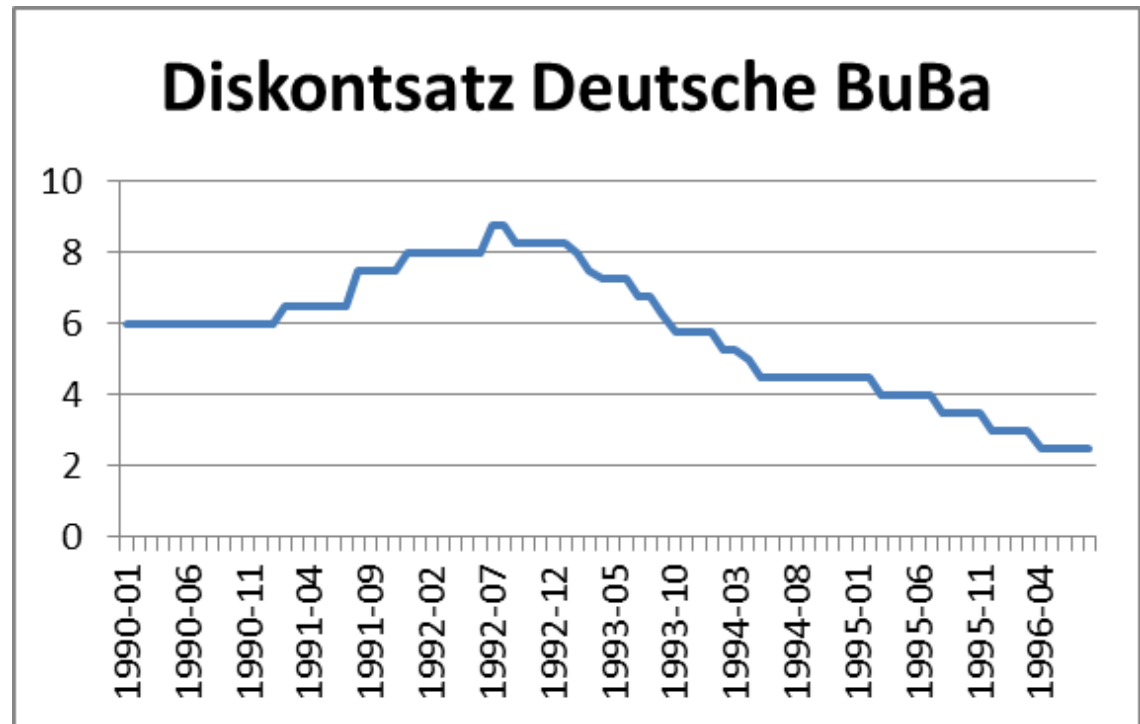
dom: Poland złoty  
foreign: Germany DM

1)  $r > r_a \Rightarrow$  dem DM  $\downarrow$   
CB fix w by  $R \uparrow$   
neutralize by  $F \downarrow$   
 $r, Y$  stay constant



limits: ①  $F = 0 \Rightarrow F < 0$ , costly ②  $r > r_a$ ; may DM  $\downarrow$  ③  
 2) give up neutr.  $\rightarrow$  comm. banks more liquidity  $\Rightarrow r \downarrow \Rightarrow I \uparrow \Rightarrow Y \uparrow$   
 $r = r_a$  no pressure on w  
 3)  $w \downarrow \Rightarrow w^r \downarrow \Rightarrow X' \downarrow J' \uparrow \Rightarrow \downarrow \Rightarrow$  CB:  $Y \downarrow \Rightarrow r \downarrow \Rightarrow I \uparrow$

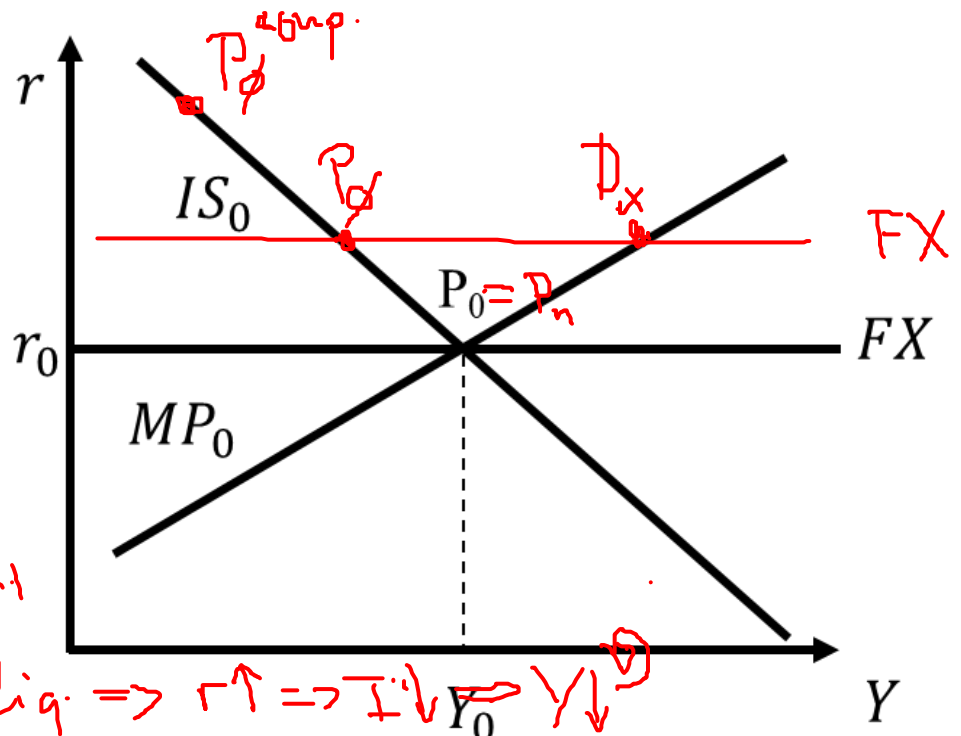
## ■ Problem 4.3



# Problem 4.4

Dom: Turkey  
 Foreign: US

a,  $KX \Rightarrow r < r_a \uparrow$   
 $\Rightarrow$  den  $\$ \uparrow$   
 $P_n: R \downarrow F \uparrow, \forall + r$   
 constant



$P_\phi$ : Comm. bank's less liq.  $\Rightarrow r \uparrow \Rightarrow I \downarrow \Rightarrow Y \downarrow$

b,  $P_x: r < r_a \Rightarrow \boxed{w \uparrow} \Rightarrow w' \uparrow \Rightarrow X' \uparrow J' \uparrow \Rightarrow Y \uparrow$   
 CB:  $r \uparrow \Rightarrow I \downarrow$

c, investors expect:  $\frac{w_{t+1}}{w_t} > 1 \Rightarrow$  compensated  $P_\phi^{comp}$ .

## ■ Additional exercise

Assume that the  $FX$ -curve is affected by a random shock  $u_t$  in period 1. Let the shock be white noise such that it is independent and identically distributed  $u_t \sim IID(0, \sigma^2)$ . This implies that today's shock will not persist in period 2. In period 1, the shock shifts the  $FX$ -curve downwards.

- a. Explain the adjustments in period 1 and 2.
- b. Describe how managed floating can help to prevent the disturbances.

.....  
*Tabelle:* Das Trilemma und wichtigste Phasen der internationalen Finanzmarktordnung  
 .....

Zur Lösung des Trilemmas opfern Volkswirtschaften die ...

	unabhängige Geldpolitik	Offenheit der Ka- pitalmärkte	Fixierung des Wechselkurses	Bemerkungen
Goldstandard bis ca. 1914	mehrheitlich	wenige	wenige	breiter Konsens
Zwischenkriegszeit (Aussetzen des Goldstandards)	wenige	mehrere	mehrheitlich	aber Kapitalverkehrs- kontrollen namentlich in Zentraleuropa und Lateinamerika
Golddevisenstandard von Bretton Woods (1944 bis 1971)	wenige	mehrheitlich	wenige	breiter Konsens.
Floating (ab 1971)	wenige	wenige	<u>mehrheitlich</u>	Gewisser Konsens mit Ausnahme von harter Währungsanbindung oder Währungsunionen (currency boards, Euroraum, Dollari- sierung usw.)

Quelle: angelehnt an OBSTFELD und TAYLOR (2005)