
Contents

Preface xi

Part One Issues and Concepts 1

Chapter 1 Introduction to Global Macroeconomics 3

- 1.1 Macroeconomics and Open-Economy Macroeconomics 3
- 1.2 The International Monetary System 13
- 1.3 Gains from Trade and Investment 21

Chapter 2 Introduction to International Monetary Issues: The Foreign Exchange Market, Exchange Rates, External and Internal Balance 28

- 2.1 The Foreign Exchange Market 28
- 2.2 Exchange Rates and Government Intervention 36
- 2.3 External and Internal Balance: Criteria for Balance-of-Payments Equilibrium 39
- 2.4 Arbitrage, Forward Exchange, and Speculation 42

Chapter 3 International Transactions: The Balance of Payments 49

- 3.1 The Balance-of-Payments Equation 49
- 3.2 The U.S. Balance of Payments 59
- 3.3 Behind the Balance-of-Payments Equation 62

Part Two Macroeconomic Variables in the Open Economy 65

Chapter 4 Income Transmission and Foreign Trade Multipliers 67

- 4.1 The Closed Economy: A Review 67
- 4.2 Income Determination in the Open Economy with Autonomous Exports 75
- 4.3 Endogenous Exports: A Two-Country Analysis 81
- 4.4 Many Countries: The Foreign Trade Matrix 86

Chapter 5	Interest Rates, Capital Mobility, and Income Determination	92
5.1	Income Determination in a Closed Monetary Economy	92
5.2	The Foreign Balance Function and the IS-LM Model	104
5.3	Income and Balance-of-Payments Adjustments Under Fixed Exchange Rates	112
5.4	Adjustment Under Flexible Exchange Rates	117
Chapter 6	The Impact of Stabilization Policies Under Fixed and Flexible Exchange Rates	122
6.1	Stabilization Policy in the Financially Insular Economy	122
6.2	Stabilization Policy in the Financially Open Economy with Perfect Capital Mobility	130
6.3	Stabilization Policy in the Financially Open Economy with Imperfect Capital Mobility	134
6.4	Coordinating Monetary-Fiscal Policies to Reduce Shock Transmission	143
6.5	Some Econometric Evidence on Policy Effects	147
Chapter 7	Aggregate Demand, Aggregate Supply, Employment, and Inflation	151
7.1	The Aggregate Demand and Supply Functions	151
7.2	Aggregate Supply and the Behavior of Wages	157
7.3	Wage Policy and Employment	165
7.4	Aggregate Supply and International Adjustment	177
Appendixes to Part Two		183
Part Three Balance of Payments and Exchange Rate Economics 213		
Chapter 8	The Current Account (I): Price Elasticities and the Trade Balance	217
8.1	Elasticity Pessimism	217
8.2	Elasticities Analysis of Devaluation: A General Approach	222
8.3	Elasticity Estimates and the <i>J</i> -Curve	233
8.4	Exchange Rate Stability and Macroeconomic Stability	236
Chapter 9	The Current Account (II): Income-Expenditure Effects of Devaluation	239
9.1	The Absorptionist Attack on Elasticities Analysis	239
9.2	Devaluation, the Price Level, and Absorption	244
9.3	Synthesizing Elasticities and Absorption Analysis as a Guide to Policy	250
9.4	International Cooperation to Achieve External and Internal Balance	255
Chapter 10	The Monetary Theory of the Balance of Payments	260
10.1	Introduction to Monetary and Asset-Market Theories	260
10.2	Monetarism	264

10.3	The Monetary Theory Under Fixed Exchange Rates	267
10.4	The Monetary Approach: IMF Variety	283
10.5	Flexible Exchange Rates and the Monetary Approach	288
Chapter 11	Asset Markets and Flexible Exchange Rates	295
11.1	Introduction	295
11.2	Portfolio Choice and Foreign Investment	296
11.3	Short-Run Asset-Market Equilibrium	304
11.4	The Current Account and Long-Run Exchange Rate Adjustment	314
Chapter 12	External and Internal Balance and the Theory of Economic Policy	320
12.1	The Static Theory of Economic Policy	320
12.2	Mundell's Analysis of Fixed Exchange Rates and the Monetary-Fiscal Mix	326
12.3	Discrete Policy Adjustment and the Problem of Overshooting	331
12.4	Continuous Adjustment, Stability, and Exclusive Assignment	337
12.5	Correct Assignment: A Simulation for the U.S. Economy	340
12.6	Summary	342
Appendixes to Part Three		346
Part Four The International Monetary System 369		
Chapter 13	The International Monetary System to 1973	371
13.1	The Nineteenth-Century Gold Standard	371
13.2	Between the World Wars: 1918-1940	381
13.3	Bretton Woods: 1944-1973	390
13.4	Postmortem: The SDR and the Reform Debate	400
Chapter 14	The Flexible Exchange-Rate System and the Global Debt Problem	409
14.1	International Monetary Arrangements in the Post-Bretton Woods Period	409
14.2	The Behavior of Real Exchange Rates	416
14.3	The Flexible Exchange-Rate System: Promises versus Realities	423
14.4	The Global Debt Problem	438
Chapter 15	Improving the International Monetary System	454
15.1	Stabilizing the Flow of Capital	454
15.2	Government Intervention as a Source of Exchange Rate Instability	472
15.3	Criteria for Government Exchange Market Intervention	477
15.4	Geographic Intervention: The Optimum Currency Area	487
15.5	An International Monetary System for the Future?	492
Index		499