Index

accession countries 6
Alzati, F. 35, 58, 112, 157–8, 165
  avoiding adjustment using exchange rate 55
  bailouts 64
  discretion vs. rules 134–5
  gradualism 74–5
  market failure and state intervention 121–2
  NACU 82
  policy 98–9
  amero see North American monetary union
anchor of stability 66–7
Andrews, D. 49, 56, 127–9, 161
Appalachia 50
Argentina 18, 50, 55, 92, 110
  currency board 36, 59, 76, 77, 81, 124, 126
  exchange rate policy 94, 95
  mismanagement 71–2
  provincial money 107
  real exchange rate 96, 97, 101–103
  tequila crisis compared with Mexican crisis 61–5, 67–9, 77
Armey, D. 160
Arndt, S. 41, 46, 58, 61, 84, 112, 155–6, 166–7
Asia 130
  economic policy in East Asia 137–52
  Asian crisis 9, 34–5, 60, 66, 166
  exchange rate movements as cause 140–43
  asymmetric shocks 53–7, 131–3
Baila, I. 129
  bailouts 63–4, 157
  balance of payments 31–2
  bancor 15
Bank of Canada 54
Bank of Japan 50–51, 139, 140, 149, 152
Bank of Mexico 135
  banks 98, 103, 107, 164
  Baquero, A. 77, 83, 119–21, 135
  Malaysia 146–7
  monetary policy and economic growth in Latin America 59–77
  passim
Belgium 33
Beltran, A. 42, 58, 69, 83, 121, 146
  Mexico’s search for stability 118–19
Bergsten, F. 40, 153, 155
Black, C. 45
black market 98
Blair, T. 45–6
Blanchard, O. 37
Brady bonds 61
Brazil 55, 60, 91–2, 94, 101–102
Bretton Woods system 2, 4, 11, 14, 20, 162–3
  US and 5, 15, 136
Britain 6, 15, 38, 44, 45–6
  bubbles 27–8, 35
  budget deficit 42, 125
Bundesbank 49, 73
Camdessus, M. 60, 166
Canada 78–87 passim
  Bank of Canada 54
capital
  controls 26–7, 32–4, 97–8, 147–8
  inflows 90, 95–6, 96–7
  mobility 17, 158–60
  tax on short-term inflows 32–3, 93–4, 97, 98, 154, 158, 160
Carter, J. 100
Cassel, G. 3
Cavallo, D. 62, 68, 126
central banks 47–8, 69
  see also under individual names
Central and Eastern European countries 44–5
CFA (Communauté Financière Africaine) 125
Chile 91, 92–4, 98
tax on short-term capital flows 32–3, 93–4, 97, 98, 154, 158, 160
China 140–41
Citibank 30
Clinton, W. 76, 159–60
Colosio, L.D. 117, 126
Comisión de Cambios 127
community/local currencies 107–108
competitive devaluation 134–5
compulsory surrender of export proceeds 97–8
Connally, J. 136
Connally, M. 41, 42, 58, 69
possibility of monetary stability in Latin America 101–16 passim
contagion 154–5, 164
convergence 35–7
corners hypothesis 143–5, 160
corruption 18
Council on Foreign Relations 114, 153–5, 159–60, 166
Courchene, T. 85
credibility, policy 120
crises 154–5, 160–61, 164
Asian crisis see Asian crisis
debt crises see debt crises
crony capitalism 34–5, 151
Crow, J. 54
cultural sovereignty 80–81
currency areas 6–9, 10–11
currency boards 10, 17, 19, 69, 76, 124–6
Argentina 36, 59, 76, 77, 81, 124, 126 custom unions 101–102
David, L. 51, 84
debt, foreign 92–4, 98, 162
debt crises 96, 166
comparison of Mexico and Argentina 61–5, 67–9, 77
deflation 3–4
Delors Commission 79
demand and supply 88–90
Denmark 6
devaluations 64–5, 68, 90–91, 103, 113
competitive 134–5
Thai devaluation 141–2
developing countries 153
supply of funds to 92–4
dollar 2, 4, 15, 39–40
currency bloc 7–9, 10–11, 145–6, 163
dollar-euro rate 25–7, 40, 55
dollar-yen rate 9, 25, 138–40, 141, 149–50
effect of euro on dollar as reserve
currency 46, 155
G-3 monetary union 10–13
possible future problems 16–17
prestige 86
dollarization 68, 75–6, 109–110, 124
Dominguez, K. 139
Dornbusch, R. 19, 147–8
Dow Jones index 24, 28
Duisenberg, W. 43
Eastern and Central European countries 44–5
Ecuador 61
Eichengreen, B. 110, 142, 143
El Salvador 75–6, 94, 130
entrepreneurship 134
euro 36–7, 79, 145–6, 155, 163
dollar-euro rate 25–7, 40, 55
in Europe and the world 38–58
G-3 monetary union 10–13
significance in international economy 6–9
Euro-11 38–9
Euro System 44
European Central Bank (ECB) 43, 44–5, 48–9, 55–6
European Monetary Union (EMU) 5, 6, 12, 134, 143
development of 18–19, 127–9
expansion 44–6
see also euro
European System of Central Banks 44
exchange rate regimes 65–6, 73–4, 106–107, 154–5
fixed exchange rates see fixed exchange rates
flexible exchange rates 2, 5–6, 65–6, 70–71, 113, 115–16, 130–31
future of international monetary system 158–60

debt crises 96, 166
comparison of Mexico and Argentina 61–5, 67–9, 77
deflation 3–4
Delors Commission 79
demand and supply 88–90
Denmark 6
devaluations 64–5, 68, 90–91, 103, 113
competitive 134–5
Thai devaluation 141–2
developing countries 153
supply of funds to 92–4
dollar 2, 4, 15, 39–40
currency bloc 7–9, 10–11, 145–6, 163
dollar-euro rate 25–7, 40, 55
dollar-yen rate 9, 25, 138–40, 141, 149–50
effect of euro on dollar as reserve
currency 46, 155
G-3 monetary union 10–13
possible future problems 16–17
prestige 86
dollarization 68, 75–6, 109–110, 124
Dominguez, K. 139
Dornbusch, R. 19, 147–8
Dow Jones index 24, 28
Duisenberg, W. 43
Eastern and Central European countries 44–5
Ecuador 61
Eichengreen, B. 110, 142, 143
El Salvador 75–6, 94, 130
entrepreneurship 134
euro 36–7, 79, 145–6, 155, 163
dollar-euro rate 25–7, 40, 55
in Europe and the world 38–58
G-3 monetary union 10–13
significance in international economy 6–9
Euro-11 38–9
Euro System 44
European Central Bank (ECB) 43, 44–5, 48–9, 55–6
European Monetary Union (EMU) 5, 6, 12, 134, 143
development of 18–19, 127–9
expansion 44–6
see also euro
European System of Central Banks 44
exchange rate regimes 65–6, 73–4, 106–107, 154–5
fixed exchange rates see fixed exchange rates
flexible exchange rates 2, 5–6, 65–6, 70–71, 113, 115–16, 130–31
future of international monetary system 158–60
intermediate regimes 143–5, 146, 148
pegged exchange rates 40–41
possibility of monetary stability in Latin America 112–16
sliding pegs 27
exchange rates
among G-3 currencies 8–10, 12
Argentine crisis 64–5
Canada 80
central banks’ control over 135
dollar-euro 25–7, 40, 55
dollar-yen 9, 25, 138–40, 141, 149–50
Mexico 19–20, 64–5, 112–13, 122–6
movements as cause of East Asian crisis 140–43
overvalued 122–3, 135
policy in Latin America 88–100
role of euro 40–41, 52–8
exports 88–90
compulsory surrender of export proceeds 97–8
factor mobility 17, 54, 86–7, 158–60
Federal Reserve system 2–3, 11–12, 32, 73, 81, 86
Fernandez, R. 62, 126
Fetcher, W.R. 45
fiats 33
financial markets 24, 27–9
fiscal policy 42
Fisher, S. 164
fixed exchange rates 9–10, 65–6, 130–33
and Asian crisis 142
Latin America 94, 114–15
Mexico 112–13, 123–6
see also currency boards;
dollarization; monetary union
flexible exchange rates 2, 5–6, 65–6, 70–71, 113, 115–16, 130–31
Flores, A. 77
Ford Motor Company 80
forecasting, short-term 29–30
foreign exchange reserves 7, 39, 114
Fraga Neto, A. 60
France 125
Frankel, J. 46–7, 56–7, 66, 75–6, 80, 111–12
economic policy in Japan and East Asia 137–52 passim
Friedman, M. 57, 115
G-3 monetary union 10–13
G7 140, 159
G22 159
GDP 38–9
Germany 43, 128–9
Bundesbank 49, 73
Giscard d’Estaing, V. 50
gold 4–5, 20–21, 162–3
gold bloc 163–4
gold standard 2, 3, 8, 10, 162
gradualism 69, 74–5
Greenspan, A. 30–31, 100, 160
Greenwood, J. 70, 72
Grubel, H. 147, 151
abolition of the IMF 164–5, 166
exchange rate regime 113, 132–3
monetary policy in the NAFTA area
and the possibility of monetary union 78–87 passim
politics 47–8, 52
Guatemala 94
Haberler, G. 27
Hague, W. 44
exchange rate policy in Latin America 88–100 passim
Mexican and Argentine crises 61–2, 63, 67–8
policy as servomechanism 29
shocks 49–50, 133
Harris, R. 85
Hausmann, R. 110
Hayek, F.A. von 80, 99
hedge funds 27
Hinshaw, R. 37, 88
Hirschman, A.O. 112
Holland 33
Honduras 94
Hong Kong 69–70, 72–3, 81, 105–106
Hong Kong Monetary Authority 105–106
imports 88–90
import restrictions 89, 90
income distribution inequality 133, 134
Indonesia 76
<table>
<thead>
<tr>
<th>Term</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>inflation</td>
<td>24</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>69–70, 72–3</td>
</tr>
<tr>
<td>Latin America</td>
<td>90–91</td>
</tr>
<tr>
<td>Mexico</td>
<td>119–20, 125</td>
</tr>
<tr>
<td>innovation</td>
<td>1–2</td>
</tr>
<tr>
<td>institutional frameworks</td>
<td>83, 84, 85, 109</td>
</tr>
<tr>
<td>interest rates</td>
<td>42, 83, 85, 120</td>
</tr>
<tr>
<td>intermediate regimes</td>
<td>143–5, 146, 148</td>
</tr>
<tr>
<td>international currency (INTOR)</td>
<td>13–16</td>
</tr>
<tr>
<td>International Monetary Fund (IMF)</td>
<td>13, 151, 156–7</td>
</tr>
<tr>
<td>default on Brady bonds in Ecuador</td>
<td>61</td>
</tr>
<tr>
<td>proposal to abolish</td>
<td>164–5, 166</td>
</tr>
<tr>
<td>role</td>
<td>60, 154–5, 160, 161–2</td>
</tr>
<tr>
<td>international monetary system</td>
<td></td>
</tr>
<tr>
<td>future of</td>
<td>153–67</td>
</tr>
<tr>
<td>reform of</td>
<td>1–23</td>
</tr>
<tr>
<td>state of the world economy</td>
<td>24–37</td>
</tr>
<tr>
<td>internationalization ratio</td>
<td>39</td>
</tr>
<tr>
<td>intervention</td>
<td>11–12, 139–40</td>
</tr>
<tr>
<td>state intervention and market failure</td>
<td>121–2</td>
</tr>
<tr>
<td>sterilized intervention</td>
<td>93–4, 107, 139–40</td>
</tr>
<tr>
<td>INTOR</td>
<td>13–16</td>
</tr>
<tr>
<td>investment decisions</td>
<td>34–5</td>
</tr>
<tr>
<td>Italy</td>
<td>36, 42, 47–8, 53</td>
</tr>
<tr>
<td>Jamaica</td>
<td>95–6</td>
</tr>
<tr>
<td>Japan</td>
<td>34–5, 72</td>
</tr>
<tr>
<td>Bank of Japan</td>
<td>50–51, 139, 140, 149, 152</td>
</tr>
<tr>
<td>economic policy</td>
<td>137–52</td>
</tr>
<tr>
<td>G-3 monetary union</td>
<td>10–13</td>
</tr>
<tr>
<td>monetary union with US</td>
<td>150</td>
</tr>
<tr>
<td>yen</td>
<td></td>
</tr>
<tr>
<td>yen</td>
<td></td>
</tr>
<tr>
<td>Johnson, C.</td>
<td>68, 106, 134, 145–6</td>
</tr>
<tr>
<td>euro in Europe and the world</td>
<td>38–58</td>
</tr>
<tr>
<td><em>passim</em></td>
<td></td>
</tr>
<tr>
<td>fixed exchange rates and reserves</td>
<td>114</td>
</tr>
<tr>
<td>monetary union in NAFTA area</td>
<td>82, 83</td>
</tr>
<tr>
<td>productivity</td>
<td>104</td>
</tr>
<tr>
<td>US balance of payments</td>
<td>31</td>
</tr>
<tr>
<td>Keynes, J.M.</td>
<td>3, 4, 9–10</td>
</tr>
<tr>
<td>Kohl, H.</td>
<td>76, 129</td>
</tr>
<tr>
<td>Korea, South</td>
<td>29, 141–2</td>
</tr>
<tr>
<td>Krugman, P.</td>
<td>147, 152</td>
</tr>
<tr>
<td>labor mobility</td>
<td>54, 86–7</td>
</tr>
<tr>
<td>Larosière, J. de</td>
<td>166</td>
</tr>
<tr>
<td>Latin America</td>
<td></td>
</tr>
<tr>
<td>exchange rate policy</td>
<td>88–100</td>
</tr>
<tr>
<td>monetary policy and economic growth</td>
<td>59–77</td>
</tr>
<tr>
<td>possibility of monetary stability</td>
<td>101–16</td>
</tr>
<tr>
<td>see also under individual countries</td>
<td></td>
</tr>
<tr>
<td>leadership</td>
<td>126</td>
</tr>
<tr>
<td>lender of last resort</td>
<td>158–60</td>
</tr>
<tr>
<td>local/community currencies</td>
<td>107–108</td>
</tr>
<tr>
<td>Long-Term Capital Management</td>
<td>(LTCM) 29, 160</td>
</tr>
<tr>
<td>Maastricht Treaty</td>
<td>5–6, 49</td>
</tr>
<tr>
<td>Mahathir Mohamad</td>
<td>146, 148</td>
</tr>
<tr>
<td>Malaysia</td>
<td>33–4, 146–7, 148</td>
</tr>
<tr>
<td>Malpass, D.</td>
<td>59</td>
</tr>
<tr>
<td>Manley, M.</td>
<td>95</td>
</tr>
<tr>
<td>market crash, 1987</td>
<td>30–31</td>
</tr>
<tr>
<td>market failure</td>
<td>121–2</td>
</tr>
<tr>
<td>mechanism of adjustment</td>
<td>63</td>
</tr>
<tr>
<td>Menem, C.</td>
<td>77, 126</td>
</tr>
<tr>
<td>Mercosur</td>
<td>101–102</td>
</tr>
<tr>
<td>Mexico</td>
<td>18, 19–20, 58, 59–60, 75, 97, 114–15, 141–2</td>
</tr>
<tr>
<td>Bank of Mexico</td>
<td>135</td>
</tr>
<tr>
<td>crisis compared with Argentine crisis</td>
<td>61–5, 67–9, 77</td>
</tr>
<tr>
<td>currency union with US</td>
<td>117–18, 128–9</td>
</tr>
<tr>
<td>exchange rate policy</td>
<td>70–71</td>
</tr>
<tr>
<td>factor mobility between US and 54</td>
<td></td>
</tr>
<tr>
<td>monetary policy and economic performance</td>
<td>117–36</td>
</tr>
<tr>
<td>monetary union in the NAFTA area</td>
<td>82–3</td>
</tr>
<tr>
<td>structural reforms</td>
<td>76–7</td>
</tr>
<tr>
<td>mini-devaluation policy</td>
<td>91</td>
</tr>
<tr>
<td>Mises, L. von</td>
<td>3</td>
</tr>
<tr>
<td>Modigliani, F.</td>
<td>28</td>
</tr>
<tr>
<td>monetary union</td>
<td>114</td>
</tr>
<tr>
<td>EMU see European Monetary Union</td>
<td></td>
</tr>
<tr>
<td>G-3 10–13</td>
<td></td>
</tr>
<tr>
<td>Japan and US</td>
<td>150</td>
</tr>
<tr>
<td>Mexico and US</td>
<td>117–18, 128–9</td>
</tr>
<tr>
<td>money illusion</td>
<td>50</td>
</tr>
<tr>
<td>monistic models</td>
<td>30</td>
</tr>
</tbody>
</table>
Monnet, J. 42
moral hazard 142
Morita, A. 149
Mundell, R. 25–6, 37, 41, 56, 81, 84–5, 96, 167
anchor of stability 66–7
asymmetric shocks 131–2
community currencies 107–108
expansion of EMU 44–5
Federal Reserve 73
future of international monetary system 161–4
Japan-US monetary union 150
Mexico and Argentine crises 62, 63
monetary stability in Mexico 123–6
real exchange rate economics 104–106, 112–13
reform of the international monetary system 1–23 passim
stability of flexible exchange rate systems 52–4
yen-dollar rate 149–50
Murdoch, R. 44, 45
NAFTA 60, 128
monetary policy in the NAFTA area 78–87
natural resources, prices of 80
Niinisto, S. 43
non-traded goods 111–12
opt-out mechanisms 51–2
optimum currency areas 46–7, 53, 56, 57–8, 148
overshooting 95
Panama 94–5, 96–7, 163
pegged exchange rates 40–41
Plaza Accord 149
policymakers 98–9
political integration 42, 43
politics
Latin America 61, 71, 73, 77
role in EMU 47–9
population growth 118
price-earnings ratios 28
prices
natural resources 80

stability 8
unemployment and 102–103
US price level 4–5
Prodi, R. 45
productivity 104, 105, 110, 134
protectionism 134–5
Quebec 85–6
Reagan, R. 99, 100
real exchange rate
exchange rate policy in Latin America 88–100
possibility of monetary stability in Latin America 101–16
Rees, A. 79
reserves
devaluation and 141–2
foreign 7, 39, 114
Mexico and accumulation of 117, 120–21, 122, 127
risk premium 129–30
Rist, C. 3
Robbins, L. 1, 20, 41
Rodriguez, C. 126
Roman monetary standard 14–15
Rubin, R. 73–4, 138, 158, 166
Russia 60–61, 157, 165
Sachs, J. 147–8
Salinas, R. 65–6, 70–71, 84, 109–110, 126–7, 132
Samuelson, P.A. 79
state of the world economy 24–37 passim
sanctions 42–3
Scaruffi, G. 15
SDR 14
Seaga, E. 95–6
Segerson, N. 47
seigniorage 41, 43, 82
Sera, Mr. (Mexican Finance Minister) 115
servomechanism 29
Sanchez, C. 133–4
Shelton, J. 34, 73–4, 117–18, 135–6, 160–61
shocks
asymmetric 53–7, 131–3
euro and 47, 49–50, 51–8
fixed exchange rates and 115, 126, 130–33
short-term capital inflows, tax on 32–3, 93–4, 97, 98, 154, 158, 160
short-term forecasting 29–30
Shultz, G. 164–5, 166
silver 20–21
Simon, W. 166
single (world) currency 8, 13–16, 17–18, 35–7, 41, 163
sliding pegs 27
Sojo, E. 76–7, 122–3
Solomon, R. 32–3, 42, 57–8, 65, 73, 114–15
asymmetric shocks 54–5
European System of Central Banks 44
future of the international monetary system 153–7 passim, 165–6
Solow, R. 35
sovereignty 50
cultural 80–81
Sprinkle, B. 99–100
Stark, J. 161
state intervention, and market failure 121–2
statistical taxes 101–102
sterilized intervention 93–4, 107, 139–40
structural reforms 64, 118–19
Summers, L.H. 33, 41, 68, 74, 138, 144
supply and demand 88–90
Sweden 6

Taft-Hartley Act 164
targets 101–104
commitment to 135
taxes 103, 104, 110
Argentina 71–2, 101–102
tax on short-term capital flows 32–3, 93–4, 97, 98, 154, 158, 160
Tobin tax 33, 154
terms of trade 108–109, 111
shocks 53–4, 57
tesobonos 60–61, 61–2
Texas 111
Thailand 28–9, 60, 152
devaluation 141–2
time inconsistency 145
Tobin tax 33, 154
trade 39, 153
real exchange rate economics 88–90, 92
surpluses in Mexico 127
transparency of pricing 17–18
tripartite world currency system 145–6
unemployment 102–103
unhedged (dollar) liabilities 142–3
United States (US) 24–5, 36, 37, 86, 135–6, 151–2
Appalachia 50
asymmetric shocks 131
balance of payments 31–2
and Bretton Woods system 5, 15, 136
Carter inflation and Reagan disinflation 100
currency union with Mexico 117–18, 128–9
dollar see dollar
dollarization 68, 75–6, 109–110, 124
factor mobility between Mexico and 54
Federal Reserve System 2–3, 11–12, 32, 73, 81, 86
and fixed exchange rate 123
G-3 monetary union 10–13
inflation and developing countries’ inflation rates 70, 72–3
in international monetary system 2–5, 15–16
local community currencies 107–108
monetary union with Japan 150
and North American monetary union 81
price index 94–5
Taft-Hartley Act 164
Texas 111
Treasury 125, 166
Uruguay 95, 96, 124
verifiability 144–5
Viner, J. 115
Volcker, P. 16
wages 102–103
Wallich, H. 26
World Bank 156–7
world currency 8, 13–16, 17–18, 35–7, 41, 163
Index

World War I 3
Wriston, W. 166

yen 137–8, 151–2, 163
currency bloc 7–9, 10–11, 137–8, 145–6

G-3 monetary union 10–13
yen-dollar rate 9, 25, 138–40, 141, 149–50

Zak, P. 51, 55–6, 82, 104, 129–30
Zedillo, E. 70