

CHALLENGES OF THE GLOBAL CRISIS TO MACROECONOMIC THEORY AND INTERNATIONAL FINANCE

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Exchange rates and global adjustments

Discussion
by
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Open Macro: the evolution of economic thinking

- Mundell-Fleming
- Monetary approach
- Kouri's approach
- DSGE:
 - Corsetti 1 (complete markets) vs.
 - Corsetti 2 (incomplete markets)

Corsetti et al.'s paper: salient features

- Intertemporal approach
- Metric for welfare analysis
- Incomplete markets
- Globally optimal policy requires to deviate from price stability in any single country

One-bond economy: a less extreme assumption

- What is more relevant for exchange rate determination: one bond or imperfect substitutability?
- Kouri's insight: portfolio choices matter
- ... graphical analysis with a Kourian model (Blanchard-Giavazzi-Sa, 2005 BPEA)

Chart 1

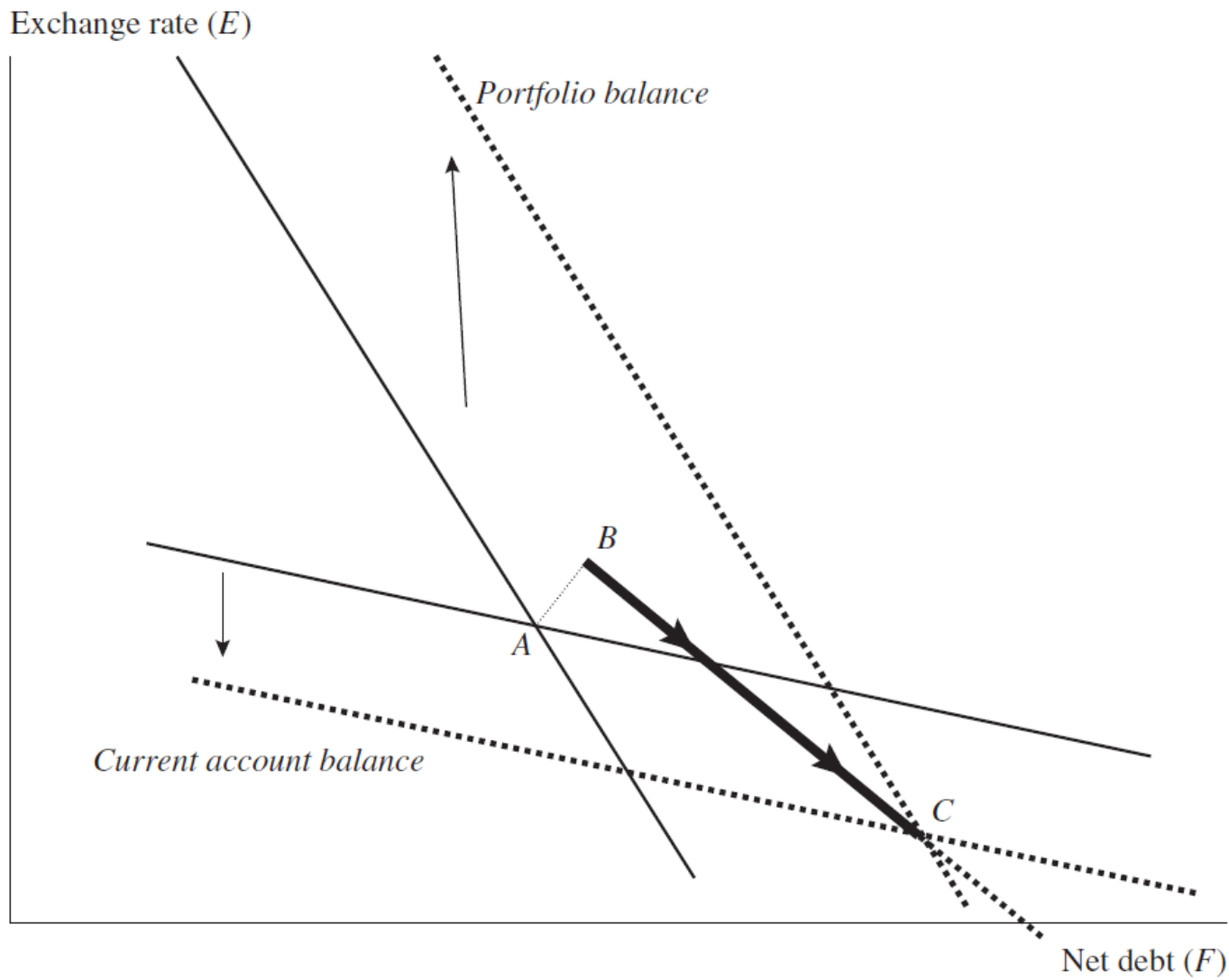


Chart 1

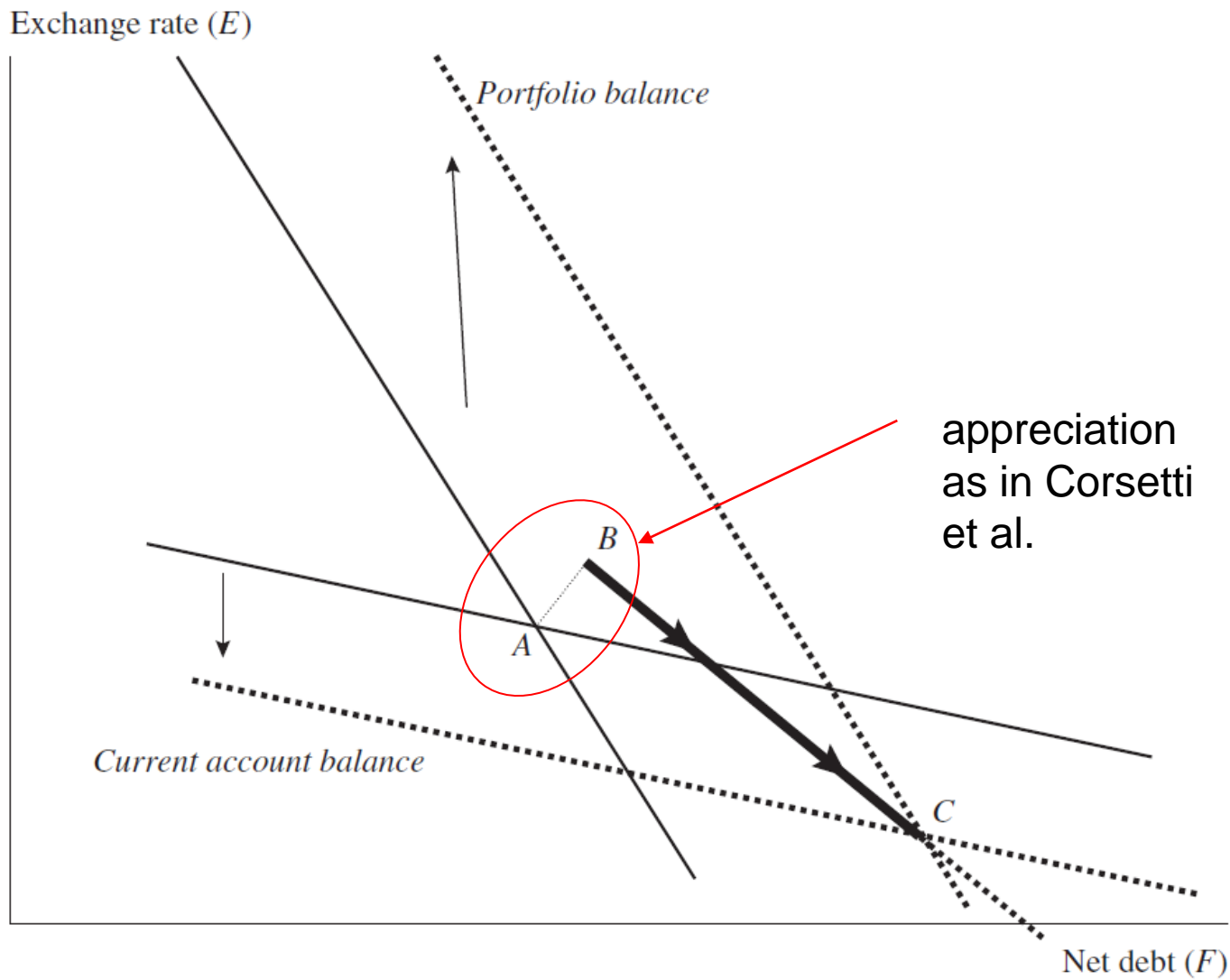
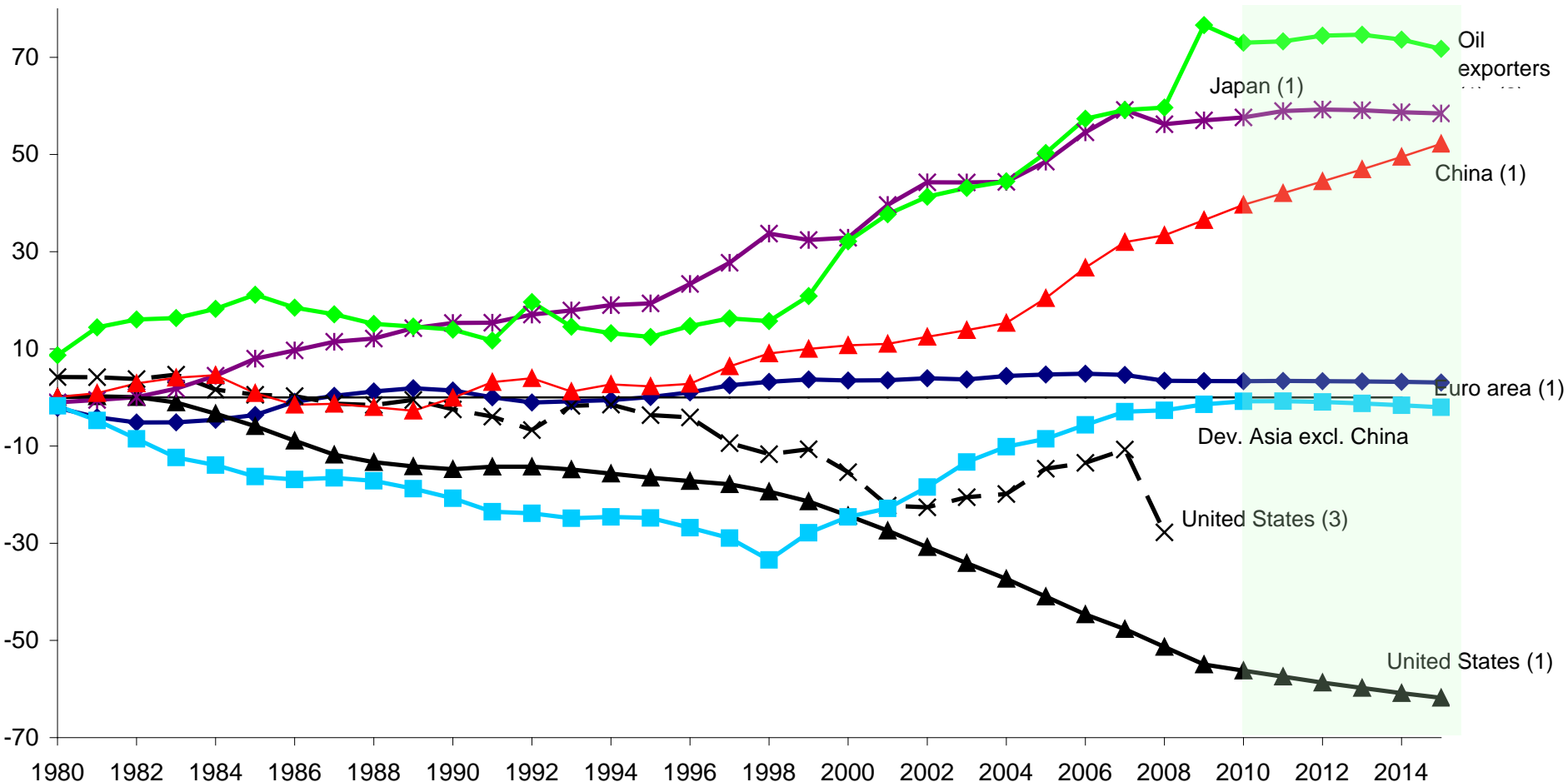


Chart 2

Cumulated current account balances

(in percent of GDP)

Projections



Sources: IMF, World Economic Outlook, April 2010; Bureau of Economic Analysis.

Notes: (1) Calculated as the cumulated current account balances, starting in 1980. (2) Includes only emerging and developing economies. (3) Actual net foreign asset position (with FDI at market values).

Further questions

- *How do we define an exchange rate as “misaligned”?*
- *How should we modify the Taylor rule?*