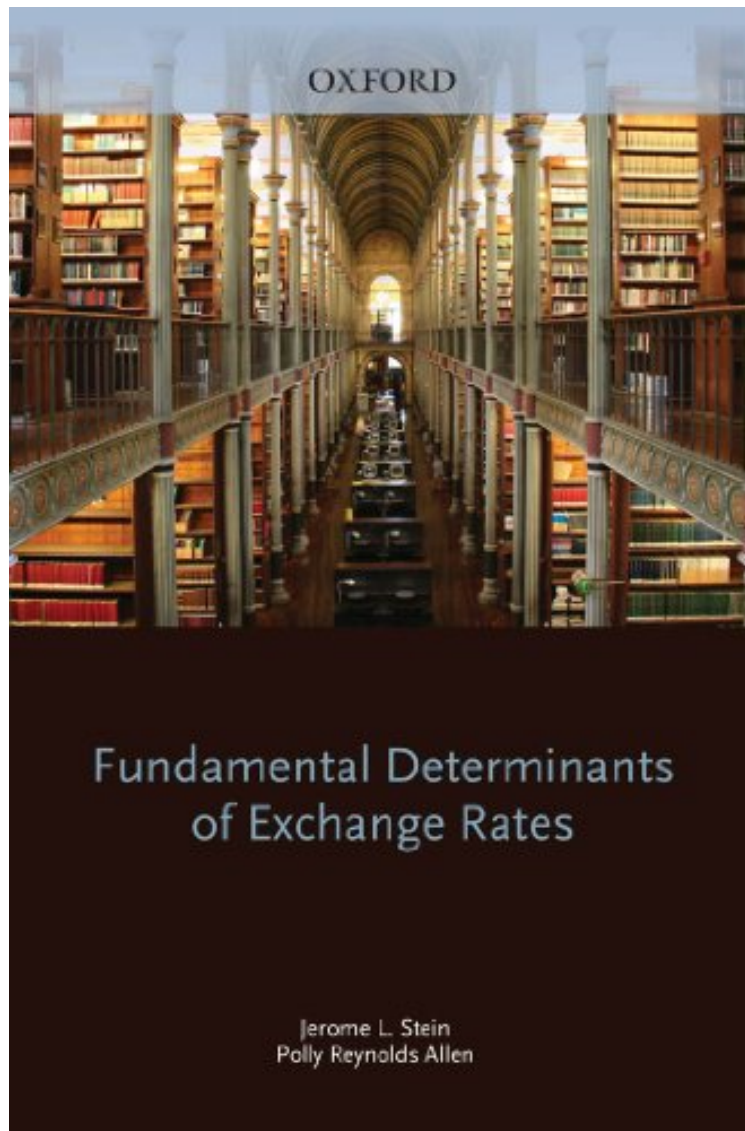


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## Fundamental Determinants of Exchange Rates

*Jerome L. Stein, Polly Reynolds Allen*  
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**Jerome L. Stein, Polly Reynolds Allen : Fundamental Determinants of Exchange Rates** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Fundamental Determinants of Exchange Rates:

Existing models fail to explain the large fluctuations in the real exchange rates of most currencies over the past twenty years. The Natural Real Exchange Rate approach (NATREX) taken here offers an alternative paradigm to those which

focus on short-run movements of nominal exchange rates, purchasing power parity of the representative agent intertemporal optimization models. Yet it is also neo-classical in its stress upon the accepted fundamentals driving a realeconomy. It concentrates on the real exchange rate, and explains medium- to long-run movements in equilibrium real exchange rates in terms of fundamental variables: the productivity of capital and social (public plus private) thrift at home and abroad. The NATREX approach is a family of growth models, each tailored to the characteristics of the countries considered. The authors explain the real international value of the US dollar relative to the G10 countries, and the US current account. These are two large economies. The model is also applied to small economies, where it explains the real value of the Australian dollar and the Latin American currencies relative to the US dollar. The model is relevant for developing countries where the foreign debt is a concern. Finally, it is applied to two medium-sized economies to explain the bilateral exchange rate between the French franc and the Deutsche Mark. The authors demonstrate both the promise of the NATREX model and its applicability to economies large and small. Alongside the analysis, econometrics, and technical details of these case studies, the introductory chapter explains in accessible terms the rationale behind the approach. The mix of theory and empirical evidence makes this book relevant to academics and advanced graduate students, and to central banks, ministries of finance, and those concerned with the foreign debt of developing countries.

"The work of Jerome Stein and his colleagues in developing the NATREX model of the equilibrium exchange rate marks an important advance in a field that has been unreasonably neglected until recently."--John Williamson, Institute for International Economics  
"This book greatly enhances our understanding of the behavior of real exchange rates. It provides an elegant model based on a solid theoretical foundation that links real exchange rates to their fundamental economic determinants and takes proper account of stock and flow considerations. The authors provide a masterful account of how changes in productivity and thrift affect the real exchange rate."--Peter Clark, International Monetary Fund  
About the Author Jerome L. Stein is at Brown University. Polly Reynolds Allen is at University of Connecticut.