Index

- absorption, 99-100, 713 absorption approach, 106, 164 adaptive expectations, 88 AD curve: and inflation stabilization, 308-317; overview, 102-104 adjusted primary deficit, 223 adverse selection: banks avoiding, 532; and financial market equilibrium, 477 Afghanistan: and commodity prices, 715 Africa. See specific countries agency costs: and financial market equilibrium, 478-480; imposing restrictive covenants, 479; incentive-compatible contracts, 480; and reputation, 479; requiring short maturity, 479-480; use of collateral, 479 aggregate demand function: and absorption, 99–100; AD curve, 102-104; aggregate demand for labor, 84-86; and aggregate expenditures, 99-100; for domestic goods, 100-101; and net exports, 101-102; overview, 98-99, 112-113 aggregate demand shocks: contractionary demand shocks, 108; external shocks, 105; full-employment equilibrium, effect on, 185-186; goods market equilibrium, effect on, 106-108; non-policy domestic aggregate demand shocks, 105; overview, 105; positive demand shocks, 106; short-run equilibrium, effect on, 159-170 aggregate domestic financial wealth, 129-130 aggregate expenditures: and aggregate demand, 99-100; types of, 24-25 aggregate production function: calculation of, 78-79; constant returns to scale, 80; diminishing marginal returns, 79-80; and long-run macroeconomics, 80-81; marginal product, 79; neoclassical, 79-80; properties of, 79-80; and short-run
 - equilibrium, effect on, 186-187; goods market equilibrium, effect on, 108-110; overview, 105; short-run equilibrium, effect on, 170-172; volatility in emerging economies, causing, 173-174 Alba, Pedro, 669 Alesina, Alberto, 280, 653 Algeria: and commodity prices, 715; fiscal stimulus in, 737 Allende, Salvador, 644 allocational efficiency: of financial sector, 59-60; household allocation, 58-59; macroeconomic policies, effect of, 56-60; and permanent structure of relative prices, 58; and price signal efficiency, 58-59; private firm allocation, 58-59; public sector allocation, 57-58 anchor currency, 165 Angola: and commodity prices, 717 arbitrage, 120 Argentina: banking crisis in, 643-644; capital inflows in, 579; chronic inflation in, 322–323; contagion in, 682; currency boards in, 439, 440-441, 691-692; currency crisis in, 675; deficits in, 627; as emerging economy, 5; exchange rate flexibility in, 591; financial crisis in, 680; financial reform in, 545-546; fiscal contraction in, 595; fiscal policy in, 713, 736; fiscal stimulus in, 735-736; inflation in, 239; inflation targeting in, 355; liquidity in, 736; managed float exchange rates in, 714; Mexican crisis, effect of, 599; privatization in, 291; terms of trade in. 728 AS curve, 308-317 Asia. See specific countries

aggregate supply function: aggregate supply of labor,

aggregate supply shocks: full-employment

86-88; overview, 92-94

- Asian Bond Market Initiative, 709
- Asian fiscal crisis: and IMF, 267

macroeconomics, 80-81; twice continuously

differentiable, 79

More information

746

Index

asset demand function: and central bank, 125-129; defined, 121; and domestic private sector, 121-124; and government, 124-125; overview, 121; and rest of world, 130–131 asset market approach, 398-400 asset pooling, 482-483 asset price bubbles, 488-489 asset price collapses: banking crises, causing, 637; in Latin America, 726-728 asset supply function: domestic bond supply, 131-132; foreign bond supply, 132; money supply, 132-133 attribution: and capital account restrictions, 536 Australia: inflation targeting in, 355 Austria: hyperinflation in, 321–322 automatic stabilizer, 266 Azerbaijan: banks in, 716; and commodity prices, 715; fiscal stimulus in, 737 Bahrain: and commodity prices, 715

- balance of payments (BOP): capital account, 37; current account, 37; flow, classification of countries by, 9–10; goods and services, 37; identity, 38; in Mexico, 38; official reserve settlements balance, 37–39; overview, 35–37
- balance sheets: of central banks, 125–129, 148; constraints, 121; and currency crises, 652–658; of domestic private sector, 121–124; in Europe, 711; of government, 124–125; overview, 121; of rest of world, 130–131
- Balassa-Samuelson effects, 666

Balino, Tomas, 643

- "band, basket, and crawl" (BBC) system, 423, 431–432
- band width: announcement of, 459–461; and cost of maintaining foreign exchange reserves, 462; and degree of financial integration, 461–462; and degree of fiscal flexibility, 461; determination of, 461–462; "honeymoon effect," 460; intervention, exchange rate management through, 462–463; setting, exchange rate management through, 459–462; and shocks, 462; "smooth pasting," 460
- banking crises: adverse terms of trade shocks causing, 637; in Argentina, 643–644; asset price collapses causing, 637; bank-specific causes, 635; case studies, 641–646; causes of, 634–637; in Chile, 643–644; debt servicing difficulties causing, 637; defined, 612; deflation causing, 637; delegated monitor, government acting as, 634; Demigurc-Kunt and Detragiache on, 639–640; devaluation causing, 637; evidence re, 639–641; in Finland, 642–643; high interest rates causing, 636–637; Hutchinson and McDill on, 640–641; industry-specific causes, 635–636; in Kazakhstan, 741; macroeconomic effects of, 638–639; in Malaysia, 643–644; in Mexico, 644–645; in Norway, 642–643; overview, 633–634, 646; in Philippines, 643–644; recessions

causing, 637; and regulatory forbearance, 635; in Spain, 643–644; in Sweden, 642–643; table, 647; in Thailand, 643–644; theory of, 634–639; threat of, 527–528; in United States, 641; in Uruguay, 643–644

bankruptcy, 616

- banks: adverse selection, avoiding, 532; in Asia and Pacific, 709; asset pooling, 482-483; in Azerbaijan, 716; bank panics, threat of, 528-530; commercial banks in benchmark model, 562-563; credit ceilings, 499-500; deposit insurance, 531-532; directed credit restrictions on asset portfolios, 499; in Europe, 711-712; excessive risk taking, preventing, 533; financial market equilibrium, role in, 481-484; free rider problem, 528; Great Recession, role in, 729-730; incentives of owners and depositors, aligning, 532-533; interest rate ceilings, 499; in Kazakhstan, 716; lender of last resort function, 530-531; liquidity requirements, 499; maturity transformation, 529; in Middle East and Central Asia, 716, 717; "monsoon effects," 533; and moral hazard, 527; portfolio allocation, 571-572; and principal-agent problem, 527; "pure" contagion, 533-534; regulation and supervision, 532-534; reserve requirements, 499; sequential servicing constraint, 529; in sub-Saharan Africa, 718-719; transmission, 533; unit banks, 641. See also central banks
- banks, benchmark model with: central bank in, 563–564; commercial banks in, 562–563; financial market equilibrium in, 564–568; financial market shocks, effect of, 572–574; government in, 564; market interest rates and demand for deposits, relationship between, 570–571; and monetary policy, 568–572; nonbank private sector in, 559–562; overview, xii, 558–559, 574; portfolio allocation, 571–572; rest of world in, 564

Barrera, Felipe, 538

Barro, Robert, 70, 304-306

- Bartolini, Leonardo, 588-589
- BBC ("band, basket, and crawl") system, 423, 431-432
- BB curve: and central parity, 458–459; MM curve distinguished, 153; overview, 144–147; relative slopes of BB and MM curves, 154–155

behavioral equations, 95 behavioral parameters, 95

Belarus: budgets in, 734; devaluation in, 734; financial repression in, 711; IMF adjustment programs in, 734; reserve/debt ratio in, 712

Belgium: sustainable debt in, 247

benchmark model: development of, 77–78; exchange rate assumption, 78; open economy assumption, 77; overview, 17; small economy assumption, 77. *See also* banks, benchmark model with; floating exchange rate, benchmark model with

Benin: financial reform in, 549

747

Bennett, Adam, 603 Bernanke, Ben S., 358 bipolar view, 434-435 black market premium, 64 Bolivia: fiscal policy in, 736; fiscal stimulus in, 735-736; hyperinflation in, 321-322; unsustainability in, 55 bond market equilibrium: BB curve, 144-147; determination of, 134-136; domestic price level, effect of changes in, 139-140; foreign interest rate, effect of changes in, 141-143; international investment position, effect of changes in, 140-141; monetary policy, effect of changes in, 137-139; nominal exchange rate, effect of changes in, 143-144 bond markets: in Asia and Pacific, 709; in Europe, 711; in South Africa, 719 BOP. See balance of payments (BOP) Borio, Claudio, 249-251 Boskin Commission, 34 Bosnia-Herzegovina: currency boards in, 439; IMF adjustment programs in, 734 Bosworth, Barry, 82, 519 Botswana: exchange rates in, 718; inflation-growth correlation in, 62; integration in, 718; portfolio flows in, 718 Brady, Nicholas, 626 Brady Plan, 626, 645 Brazil: capital account restrictions in, 538; capital inflows in, 579; chronic inflation in, 322-323; contagion in, 682; credit markets in, 714-715; currency crisis in, 675; deficits in, 627; domestic currency debt in, 714; as emerging economy, 5; exchange rate flexibility in, 591; financial crisis in, 680; Fiscal Crime Law, 277; fiscal policy in, 713, 736; Fiscal Responsibility Law, 277; fiscal stimulus in, 735-736; inflation-growth correlation in, 61; inflation targeting in, 355, 714; interest rates in, 714; investment/GDP ratio in, 625; liquidity in, 736; managed float exchange rates in, 714; Mexican crisis, effect of, 599; privatization in, 291; real GDP

- in, 740, 741; sovereign spreads in, 712–713; stock markets in, 715; target-oriented fiscal institutions in, 277; terms of trade in, 728; unsustainability in, 55
- BRIC countries. *See* Brazil; China; India; Russia brokerage costs, 477
- Bruno, Michael, 70, 319-320, 321

"bubble" variables, 374

- budgetary institutions. See fiscal institutions
- budget deficits. See fiscal deficits
- Budnevich, Carlos, 538
- Buiter, Willem, 265
- Bulgaria: currency boards in, 439; private sector debt in, 712
- Burundi: interest rates in, 548

Cagan, Phillip D., 321

Calvo, Guillermo, 601–602, 653, 698

- Cameroon: and commodity prices, 717; financial reform in, 549
- Canada: inflation targeting in, 355
- Cape Verde: exchange rates in, 718; integration in, 718; and remittance inflows, 718
- capital account restrictions: and 1990s emerging market crises, 689–690; arguments in favor of liberalization, 539–540; arguments in favor of retaining controls, 540–541, 689–690; and attribution, 536; balance of payments (BOP), 37; in Brazil, 538; in Chile, 538; in Colombia, 538; design of restrictions, 536; domestic factors, 535; effectiveness of controls, 534–539; evidence re controls, 536–539; incentives, effect of, 535–536; international factors, 535; in Malaysia, 538; and 1990s emerging market crises, 689–690; optimality of restrictions, 539–541; overview, 534; and sterilization, 538
- capital flight: defined, 302, 612; and high inflation, 302
- capital inflows: in Argentina, 579; in Asia and Pacific, 708; in Brazil, 579; Calvo et al. on, 601-602; and changes in financial integration, 581-583; characteristics of, 579-581; in Chile, 579; in China, 579; Chuhan et al. on, 602; control of, 498-499; defined, 36; destabilization caused by, 585-596; Dooley et al. on, 603; in Europe, 712; factors driving, 578-583; Fernandez-Arias on, 602-603; Hernandez and Rudolf on, 604, 605; in Hong Kong, 708; IMF on, 595; "immiserizing" of borrowing, 544, 583-585; in Indonesia, 579; and integration, 684-685; in Korea, 579; in Latin America, 713, 740; in Malaysia, 579; in Mexico, 579; overview, 577-578, 599-601; "pull" factors, 581-583; "push" factors, 581-583; reversals of, 596-599; Schadler et al. on, 603; in Singapore, 708; Taylor and Sarno on, 604; in Thailand, 579; in Venezuela, 579; welfare implications of, 583-585; World Bank on, 595-596, 598, 605. See also destabilization caused by capital inflows
- capital markets: financial market equilibrium, role in, 484–485
- capital mobility: imperfect capital mobility, 120, 147; monetary policy under high capital mobility, 696; pegged exchange rates and high capital mobility, 450–456. *See also* perfect capital mobility
- capital outflows: control of, 498-499; defined, 36
- capital repatriation, 36

Cardenas, Mauricio S., 538

- Cardoso, Eliana, 538
- Carkovic, Maria, 603
- Central Asia. See specific countries
- Central Bank of the Central African States, 550
- Central Bank of the West African States, 550

More information

748

Index

- central banks: balance sheets, 125–129, 148; in benchmark model, 563–564; constitutional restrictions on, 256; exchange rate policy, 126; formulation of policy, 341; Great Recession, role in, 730; legal independence of, 256; monetary policy, 127; monetization, 128–129; overview, 329–330, 343–344; portfolio allocation decisions, 125–129; price stability mandates, 336, 337, 341–342; social welfare payoff matrix, 338; sterilized intervention, 127–128. *See also* independence of central banks
- central parity: and BB curve, 458–459; exchange rate management through fixing of, 456–459; and GM curve, 458–459; as nominal anchor, 456–457; peg, choice of, 457; real exchange rate, targeting, 457–459
- Chad: and commodity prices, 717
- chained real GDP, 30
- Chamley, Christophe, 505-506
- Chile: asset price collapses in, 727-728; banking crisis in, 643-644; capital account restrictions in, 538; capital inflows in, 579; chronic inflation in, 322-323; credit ratings in, 249; currency crisis in, 675; as emerging economy, 5; exchange rate flexibility in, 591; financial reform in, 545-546; fiscal policy in, 703, 713, 736; fiscal stimulus in, 735-736; independence of central bank, 256; inflation targeting in, 355; interest rates in, 714; investment/GDP ratio in, 625; liquidity in, 736; managed float exchange rates in, 714; Mexican crisis, effect of, 599; nominal anchors in, 427; "overheating" in, 596; price stability mandates in, 337; real GDP in, 741; reversals of capital inflows in, 597-598; stock markets in, 715; Structural Surplus Rule, 703; structural surplus rule, 276; successful management of crisis in, 703; target-oriented fiscal institutions in, 276; terms of trade in, 728
- China: capital inflows in, 579; debt/GDP ratio in, 708; as emerging economy, 5; exchange rates in, 708–709; exports to, 707, 739; fiscal stimulus in, 733; integration in, 681, 725; interest rates in, 732; as major exporter, 663–664, 666; outward-oriented development strategy in, 431; reserve requirements in, 697; sovereign risk premium in, 708
- Cho, Yoon Je, 520–521
- chronic inflation, 322-323
- Chuhan, Punam, 602
- Claessens, Stijn, 602
- classification of countries: by balance of payments flow, 9–10; by economic size, 8; by effective degree of financial integration, 10; by exchange rates, 13–14; by fiscal policy, 12; by IMF, 4–5; by income per capita, 7–8; by institutional framework and structure of domestic financial sector, 10–12; by labor market structure, 14–17; by monetary policy, 12–13; overview, 4–5; by production and trade

- structure, 8–9; tables, 5–9; by United Nations, 4; by World Bank, 4
- clean float exchange rate: benchmark model assuming, 395; defined, 126; overview, 423, 424
- Cobb, Clifford, 31
- Cobb-Douglas equation, 83
- cointegrating equations, 386
- "cold turkey" approach, 315
- collateral: and agency costs, 479
- Collins, Susan, 82, 519
- Colombia: capital account restrictions in, 538; deficits in, 627; domestic currency debt in, 714; exchange rate flexibility in, 591; fiscal policy in, 713, 736; inflation-growth correlation in, 61; inflation targeting in, 355, 714; interest rates in, 714, 735; liquidity in, 736; Mexican crisis, effect of, 599; price stability mandates in, 337; real GDP in, 740, 741; sovereign spreads in, 712–713; stock markets in, 715; terms of trade in, 728
- Colosio, Luis Donaldo, 659, 692–693
- commercial banks: in benchmark model, 562-563
- commitment mechanisms: characteristics of, 350–351; choice of, 350–355; exchange rate announcements as, 351–353; inflation announcements as, 353–354; money supply announcements as, 353; recent experience with, 354–355; relationship between instrument and target, 348–350; role of, 347–348
- commodity prices: in Latin America, 713; in Middle East and Central Asia, 715–716; in sub-Saharan Africa, 717–718
- Comoros: exchange rates in, 718
- complete specialization: defined, 78; models, 371
- Congo: and commodity prices, 717; seignorage revenue in, 239
- consolidated public sector: budget constraint of, 218–220, 226
- constant-price GDP, 29
- constant returns to scale, 80
- consumer price index (CPI): and cost of living, 34; defined, 31–33; and inflation targeting, 359
- contagion: in 1990s emerging market crises, 682; in Argentina, 682; in Brazil, 682; defined, 173; in Kazakhstan, 728; in Philippines, 682; "pure" contagion, 533–534; and sovereign risk premium, 251
- Costa Rica: fiscal stimulus in, 735–736; inflation targeting in, 714; liquidity in, 736; nominal anchors in, 427
- costly state verification, 480
- cost of living, 33
- Cote d'Ivoire: financial reform in, 549; financial sector taxes in, 506; inflation-growth correlation in, 62
- countercyclical fiscal policy, 698, 733, 740 counterparty risk, 721

749

country risk premium, 56 Cowan, Kevin, 538 CPI. See consumer price index (CPI) crawling peg exchange rate, 427 credit channels, 638 "credit crunches," 638, 733 credit default swaps, 741 credit ratings: in Chile, 249; explanatory variables, 250; in Singapore, 249; and sovereign credit risk, 249-251; table, 248; in Taiwan, 249 Croatia: private sector debt in, 712 cross-country growth regressions: defined, 66; and inflation, 65-67 Cukierman, Alex, 340-341, 342 currency boards: advantages of, 439-441; in Argentina, 439, 440-441, 691-692; in Bosnia-Herzegovina, 439; in Bulgaria, 439; disadvantages of, 439-441; in Estonia, 439; in Hong Kong, 439, 441, 691-692; in Indonesia, 439; in Lithuania, 439; in Mexico, 439; mitigating credit risk through, 255-256; and monetary policy, 342-343; overview, 423; in Russia, 439 currency convertibility, 321 currency crises: in Argentina, 675; and balance sheet effects, 652-658; in Brazil, 675; in Chile, 675; debt composition, role of, 687-689; defined, 612; and exchange rate overvaluation, 674-675; and exchange rates, 434-435; first-generation models, 651, 685; fundamentals, role of, 453-454; in Hong Kong, 675; in Israel, 675; in Italy, 676; lessons from, 674-676; in Mexico, 658-662, 675, 686-687, 692-693; multiple causes of, 685-686; 1990s emerging market crises, causes of, 685-689; overview, 207, 649, 673-676; in Poland, 675; postponing, dangers of, 676; private sector debt runs, 654-658; public sector debt runs, 653-654; second-generation models, 651, 685-686; self-fulfilling crises, 452; "sudden stops," 652-658, 686; table, 677; in Thailand, 662-673, 686-687; third-generation models, 686; traditional models, 649-652; traditional responses to, 686-687; in United Kingdom, 676 currency mismatches, 612-613, 694-696, 700-701, 730 currency unification, 255. See also dollarization currency unions, 424 current account: balance of payments accounts, 37; defined, 29; in Europe, 711; national income and product accounts, 27-29 cyclically-adjusted surpluses, 714 Czech Republic: bond and equity markets in, 711; inflation targeting in, 355 Dailami, Mansoor, 251–252 Dayal-Gulati, Anuradha, 516

debt: composition, role in currency crises, 687–689; contracts, 477; default and high inflation, 297; rescheduling, 616; servicing difficulties causing banking crises, 637. *See also* debt overhangs; sovereign debt crises; sustainable debt debt overhangs: defined, 239, 613; determination of,

615; macroeconomic effects of, 616–619; overview, 613–615; write-offs, 616–617

deficits. See fiscal deficits

definitions, 95

- deflation causing banking crises, 637
- De Gregorio, Jose, 493, 538

deleveraging, 710

demand deposits, 119, 559-560

demand wage, 90

de Melo, Martha, 504

- Demigurc-Kunt, Asli, 639-640
- dependent economy models, 371-372
- deposit guarantees: in Europe, 734; in Middle East and Central Asia, 737; overview, 451
- deposit insurance, 531-532

depreciation: and AD curve, 102–103; and FF curve, 193–195; and GG curve, 192–193; medium-run equilibrium, effect of change in expected future rate on, 190–191, 195–196; offsetting changes in expected future rate, 197–198; and perfect capital mobility, 196, 198

desired equilibrium real exchange rate, 376

destabilization caused by capital inflows: alternative policy strategies re, 595–596; encouraging gross outflows in response to, 588–589; exchange rate flexibility in response to, 590–592; fiscal contraction in response to, 594–595; money multiplier, influencing in response to, 593–594; overview, 585; policy intervention, 586–587; restricting magnitude of gross inflows in response to, 587–588; sterilization in response to, 589–590; transmission mechanism, 585–586

Detragiache, Enrica, 639–640

devaluation: banking crises, causing, 637; in Belarus, 734; central bank balance sheet, effect on, 148; in Indonesia, 733; in Korea, 733; monetization, effect of, 148–149; nominal devaluation and short-run equilibrium, 165–167; no monetization, effect of, 148; retirement of debt, effect of, 149

development: direct microeconomic effects of monetary policy, 330; effect on growth, 490–494; growth, effect of, 489–490; indirect macroeconomic effects of monetary policy, 330–331; managed float exchange rate, effect of, 432; outward-oriented development strategies, 431

Dickey-Fuller tests, 666

diminishing marginal returns: aggregate production function, 79–80

directed credit: assets portfolios, restrictions on, 499; and financial repression, 520–521

dirty float exchange rate, 126

More information

750

Index

disintermediation, 593-594 dollarization: defined, 255, 343; in Ecuador, 255; in El Salvador, 255; exchange rates, 423; in Liberia, 255, 718; in Panama, 255 domestic absorption, 39 domestic bond supply, 131-132 domestic credit: BB curve, 144-147; defined, 125; medium-run equilibrium, effect of changes on, 205-207; MM curve, behavior along, 156; targeting, 127, 158-159 domestic credit rule monetary policy, 127 domestic distortions and integration, 683-684 domestic financial sector: classification of countries by institutional framework and structure of, 10-12; overview, 18-19 domestic income, 22 domestic interest rate: and domestic price level, 152-153; financial markets, role of, 118-121; and MM curve, 153-157; and RR curve, 157-158 domestic policy shocks: short-run equilibrium, effect on, 165-167; volatility in emerging economies, causing, 173 domestic price level: bond market equilibrium, effect of changes on, 139-140; and domestic interest rate, 152-153; and MM curve, 153-157 domestic versus national, 22 Dominican Republic: interest rates in, 735; remittance inflows, 728 Dooley, Michael P., 603 Dornbusch, Rudiger, 661 Drazen, Allan, 588-589 dummy variables, 619 Dunaway, Steven, 538 dynamic distortions, 584 Easterly, William, 32, 70, 238-239, 319-320, 321 economic growth. See growth economic size: classification of countries by, 8 Ecuador: asset price collapses in, 727; dollarization in, 255; fiscal policy in, 713, 736; remittance inflows, 728 Edison, Hali, 666 Edwards, Sebastian, 538, 627 Egypt: and commodity prices, 715; debt/GDP ratio in, 717; fiscal contraction in, 595 Eisner, Robert, 31 elasticity of demand for money with respect to inflation rate, 238 El Salvador: dollarization in, 255; fiscal stimulus in, 735-736; remittance inflows, 728 endogenous variables, 95 Equatorial Guinea: and commodity prices, 717 equilibrium. See bond market equilibrium; financial market equilibrium; goods market equilibrium; medium-run equilibrium; short-run equilibrium

equilibrium conditions, 95 equilibrium employment, 91-92 equilibrium real exchange rate: controversial nature of, 370; desired equilibrium real exchange rate, 376; estimation of, 383-389; evaluation of estimates, 388-389; and exchange rate policy, 431-432; general-equilibrium model simulation, 385-386; long-run equilibrium real exchange rate, 375-376, 379-380; overview, 369-370, 389-390; purchasing power parity approach, 383-384; short-run equilibrium real exchange rate, 375; single-equation reduced form estimation, 386-388; trade elasticities approach, 384-385. See also medium-run equilibrium real exchange rate equity, 480 equity markets: in Asia and Pacific, 709-710; in Europe, 711 ERM. See European Exchange Rate Mechanism (ERM) error-correction models, 388-389 escape clauses, 274-275 Estonia: currency boards in, 439; fiscal policy in, 740; private sector debt in, 712 Ethiopia: financial sector taxes in, 506 Europe. See specific countries European Exchange Rate Mechanism (ERM), 651, 684, 685, 688 European Monetary Union, 675 evaluation costs, 478 Evans, Owen, 538 exchange rate management: central parity, fixing of, 456-459; constraints on, 425-429; and fiscal solvency, 427-428; "impossible trinity," 428-429; intervention in band width, 462-463; medium-run constraints, 425-428; and monetary neutrality, 426-427; and nominal anchors, 425-426, 427; official exchange rates, 448-449, 463-464; overview, 18; pegged exchange rates, 450-456; purpose of, 449-450; setting of band width, 459-462; short-run constraints, 428-429 exchange rate policy: and central banks, 126; development, direct effects on, 431-434; and equilibrium real exchange rate, 431-432; inflation stabilization, 432-434; medium-run equilibrium, effect on, 207-209; reducing transaction costs to promote international commerce and capital flows, 432 exchange rates: and 1990s emerging market crises, 699-700; announcements, 351-353; in Asia and Pacific, 708-709; asset market approach, 398-400;

699–700; announcements, 351–353; in Asia and Pacific, 708–709; asset market approach, 398–400; "band, basket, and crawl system," 423, 431–432; in Botswana, 718; in Cape Verde, 718; in China, 708–709; choice among, 429–431; classification of countries by, 13–14; in Comoros, 718; crawling peg exchange rates, 427; credibility and 1990s emerging market crises, 691–693; and currency crises, 434–435; *de facto versus de jure*, 433; defined, 13; dirty float, 126; dollarization, 423; exchange

Index

rate-based inflation stabilization, 298, 318; expectations, xi-xii; feedback rule, 423; fixed but adjustable pegs, 423; foreign exchange market, influence on, 423-424; in Indonesia, 708; in Korea, 708; in Latin America, 714; in Lesotho, 718; and macroeconomic adjustments, 435-439; macroeconomic instruments, availability of, 438-439; in Malaysia, 708, 709; in Middle East and Central Asia, 716, 736-737; monetary policy, relationship with, 425; multiple objectives, implications of, 430-431; in Namibia, 718; overvaluation and currency crises, 674-675; overview, 421-422, 444-445; in Philippines, 708; shocks, effect of, 437-438; in South Africa, 718; in sub-Saharan Africa, 718; in Swaziland, 718; tables, 14-16; target zones, 423; in Thailand, 708; varieties of, 423. See also currency boards; devaluation; exchange rate management; exchange rate policy; misalignment; pegged exchange rate; specific exchange rate exogenous variables, 95 expected real wage, 87 expected return on investment: macroeconomic policies, effect of, 52-53 expenditure increasing/decreasing channels, 401 expenditure-switching channels, 401 expenditure-switching effect, 102-103 exportables real exchange rate, 372 exports: demand, effect of changes on short-run equilibrium, 169-170; net exports, 25, 101-102 external balance, 182 external balance condition, 200-201 external debt ratios, 232 external finance premium, 480-481 external shocks: and floating exchange rates, 405-407; goods market equilibrium, effect on, 105; and integration, 681-683; policy responses to, 174; real shocks, 168; and short-run equilibrium, 405-407; short-run equilibrium, effect on, 168-170 feedback rule, 423 feedback rule monetary policy, 127 Fernald, John, 666 Fernandez-Arias, Eduardo, 70-71, 602-603 FF curve, 193-195 financial accelerator, 494 financial assets, 11, 118 financial autarky, 124, 147 financial crises: defined, 611; interaction between, 612-613; types of, xiii, 19, 612. See also banking crises; currency crises; 1990s emerging market crises; sovereign debt crises

751

financial intermediation: costless, 474; costly, 476–480; efficient, 475–476; financial repression, effect of, 508; Pareto efficiency in, 475–476

financial liabilities, 11

- financial liberalization, 497, 525. *See also* financial reform
- financial market equilibrium: adverse selection problem, 477; agency costs, 478–480; asymmetric information, 476; banks, role of, 481–484; brokerage costs, 477; capital markets, role of, 484–485; costless financial intermediation, 474; costly financial intermediation, 476–480; and debt contracts, 477; domestic bonds and loans, 566–568; efficient financial intermediation, 475–476; evaluation costs, 477–478; external finance premium, 480–481; in full employment conditions, 188–190; in ideal world, 474–476; imperfect information, problem of, 476; moral hazard in, 478; opportunistic behavior, problem of, 476; overview, 133–134; in real world, 476–481; searching and matching problem, 476
- financial markets: asset demand functions, 121-131; asset supply functions, 121–131; BB curve, 144–147; bond market equilibrium, 134-136; defined, 470; domestic interest rate, role in, 118-121; enabling environment, promoting, 486-488; evidence of effect of development on growth, 492-494; and financial accelerator, 494; financial sector instability, dealing with, 488-489; and financial transactions, 470-474; and financing investment, 473-474; growth, effect on development, 489-490; heterogeneity, effect of, 470-474; and intertemporal reallocation of consumption, 473; money market equilibrium, 136-137; overview, 118-121, 147, 469-470, 494-495; proactive policies re, 488; public policy, 486–489; and risk reduction, 471–473; shocks, effect on benchmark model, 572-574; theory of effect of development on growth, 490-492. See also financial market equilibrium financial portfolio, 121

financial reform: in Argentina, 545-546; in Asian economies, 547-548; banking crises, threat of, 527-528; bank panics, threat of, 528-530; bank regulation and supervision, 532-534; in Benin, 549; in Cameroon, 549; capital account liberalization, 534-541; in Chile, 545-546; in Cote d'Ivoire, 549; and deposit insurance, 531-532; evidence re, 545-550; in Gambia, 549; in Ghana, 549, 550; in Indonesia, 545–546; in Japan, 547–548; in Kenya, 549; in Korea, 545–546, 547–548; in Latin America, 714-715; and lender of last resort function, 530-531; in Malawi, 549; in Nigeria, 549; overview, 525-526, 550-552; in Philippines, 545-546; public policy, 530-534; in sub-Saharan African economies, 548-550; in Taiwan, 547-548; in Tanzania, 549; in Uganda, 549; vulnerability of liberalized banking sector, 526-530. See also sequencing of financial reform

financial deepening, 514-515

financial instruments, 470

financial institutions. See banks

financial integration. See integration

More information

752

Index

financial repression: in Belarus, 711; and capital flight, 302; capital inflows and outflows, control of, 498-499; cost of intermediation, effect on, 508; credit ceilings, 499-500; defined, 59, 470, 497; and directed credit policy, 520-521; directed credit restrictions on bank asset portfolios, 499; in East Asian "miracle" economies, 509-521; efficiency of allocation, effect on, 507-508; and efficiency of investment, 517-520; elements of, 498-501; entry into formal financial sector, restrictions on, 499; evidence of effect on growth, 509; and financial deepening, 514-515; financial intermediation, effect on, 508; fiscal need for, 487; as fiscal phenomenon, 501-502; fiscal revenues from, 504-506; growth because of, hypotheses re, 513-514; growth in spite of, hypotheses re, 513; interest rate ceilings, 499; and investment rates, 517; liquidity requirements, 499; origins of, 501-506; overview, 497-498, 521-522; reserve requirements, 499; returns to accumulation, effect through, 509; and savings rates, 515-516; and seignorage revenue, 502-504; table, 505; theory of effect on growth, 507-509; and total factor productivity growth, 517-520; World Bank on, 513

financial sector: allocation of resources, 59–60; fragility of, 54–55

financial transactions: defined, 470; and financial markets, 470–474; and financing investment, 473–474; heterogeneity, effect of, 470–474; and intertemporal reallocation of consumption, 473; and risk reduction, 471–473

- Finland: banking crisis in, 642–643; inflation targeting in, 355
- first-generation models: of currency crises, 651, 685
- fiscal adjustment: and inflation, 237–239; and intertemporal budget constraint, 237–239; mitigation of sovereign credit risk through locking in, 257–258

fiscal amplitude, 737–738

fiscal contraction: in Argentina, 595; destabilization caused by capital inflows, in response to, 594–595; in Egypt, 595; in Great Recession, 722–723

fiscal deficits: adjusted primary deficit, 223; in Argentina, 627; in Brazil, 627; in Colombia, 627; defined, 124–125; determinants of borrowing, 223; in Indonesia, 687; and interest rate differentials, 220–222; in Iran, 737; in Korea, 687; money growth financing, 218–223, 234–236; in Nicaragua, 627; primary deficit, 200, 220; pro-deficit bias, 262, 267; in Sudan, 737; in Venezuela, 627; in Yemen, 737. See also intertemporal budget constraint; optimal fiscal deficits; political economy of fiscal deficits

fiscal expansion: as permanent shock, 411–412; as two-period shock, 414–415

fiscal flexibility: and band width, 461

- fiscal illusion hypothesis, 268-269
- fiscal impulse, 669, 736
- fiscal institutions: overview, xii, 261–262, 280–281; types of, 273–274. *See also* procedure-oriented fiscal institutions; target-oriented fiscal institutions
- fiscal policy: in Argentina, 713, 736; in Asia and Pacific, 710; in Bolivia, 736; in Brazil, 713, 736; in Chile, 703, 713, 736; classification of countries by, 12; in Colombia, 713, 736; countercyclical fiscal policy, 698, 733, 740; in Ecuador, 713, 736; effect on optimal fiscal deficits, 262-263; in Estonia, 740; in Europe, 734; and fiscal solvency, 217; in Hungary, 740; implications of optimal fiscal deficits, 263-267; in Kazakhstan, 716; in Latin America, 713-714, 735-736; in Latvia, 740; in Lithuania, 740; and long-term debt, 698; in Mexico, 736; in Middle East and Central Asia, 716-717; in Morocco, 737; 1990s emerging market crises, lessons from, 698, 701; overview, 17-18; in Panama, 713; in Paraguay, 736; in Peru, 713, 736; procyclical fiscal policy, 267, 669, 737; in Romania, 740; short-run equilibrium, effect on, 163-165; in sub-Saharan Africa, 719, 737-738; in Suriname, 736; in Trinidad and Tobago, 736; in Tunisia, 737; in Turkey, 740; in Venezuela, 713, 736
- fiscal revenues: from financial repression, 504–506 fiscal solvency: defined, 217; in exchange rate
- management, 427–428; and fiscal policy, 217 Fischer, Bernhard, 544–545

Fischer, Stanley, 63-64, 66-67, 68, 70, 71, 296-298, 304

Fisher, Irving, 192

- Fisher index, 29–30
- Fisher relationship, 192, 194
- Fitch, 718
- fixed exchange rate: defined, 13, 101; in Europe, 712; foreign exchange market, influence on, 424; hard pegs, 423; and inflation stabilization, 434; with perfect capital mobility, 342; soft pegs, 423
- "flexibilization," 431, 675 flexible exchange rate, 730
- flexible wages: and floating exchange rates, 394-395
- floating exchange rate: advantages of, 441–444; in Asia and Pacific, 733; defined, 13; disadvantages of, 441–444; overview, xii; in Ukraine, 734
- floating exchange rate, benchmark model with: analytical framework, 394–398; asset market approach, 398–400; clean float assumed, 395; equilibrium condition, 395–396; expectations, 396–398; expenditure increasing/decreasing channels, 401; expenditure switching channels, 401; and external shocks, 405–407; and fiscal expansion, 411–412, 414–415; flexible wages assumed, 394–395; and GM curve, 400–408, 409–417; and goods market shocks, 404–405; and increase in foreign interest rate, 412–413, 417; managed float, 407–408; and MM curve, 400–408, 409–417; and

fiscal dominance, 12, 220

Index

753

monetary expansion, 412, 415-417; and money market equilibrium, 402-403; and money market shocks, 403-404; overview, 393-394, 418; perfect capital mobility assumed, 395; and permanent shocks, 409-413; short-run equilibrium, 400-408; and two-period shocks, 413-417 flow versus stock, 21 food consumed on farms: and real GDP, 31 foreign bond supply, 132 foreign direct investment, 37 foreign exchange reserves: and band width, 462 foreign interest rate: bond market equilibrium, effect of changes on, 141-143; increase as permanent shock, 412-413; increase as two-period shock, 417; short-run equilibrium, effect of changes on, 168-169 foreign investment, 29 formal macroeconomic models, 95 "Four Tigers." See Hong Kong; Korea; Singapore; Taiwan Fraga, Arminio, 361 Frankel, Jeffrey A., 454-455 free rider problem, 528 Friedman, Milton, 211, 342 Fuhrer, Jeffrey C., 361 full employment: defined, 81; and equilibrium level of employment, 92; overview, 90-91 full employment equilibrium: aggregate demand shocks, effect of, 185-186; aggregate supply shocks, effect of, 186-187; and financial market equilibrium, 188-190; GM curve, 187-188; and nominal wages, 182-185; overview, 185; and sustained inflation, 190 functional notation, 95 Gabon: and commodity prices, 717 Gambia: financial reform in, 549 Gavin, Michael, 487-488 GDP. See gross domestic product (GDP) general-equilibrium model simulation, 385-386 Germany: hyperinflation in, 321-322 Gertler, Mark, 490 GG curve, 192–193 Ghana: financial reform in, 549, 550; financial sector taxes in, 506; inflation targeting in, 719; integration in, 718; portfolio flows in, 718 Ghosh, Atish R., 434 Giavazzi, Francesco, 653-654 Giovannini, Alberto, 504 Global Integrated Monetary and Fiscal model, 739 globalization, 681 GM curve: and central parity, 458-459; and floating exchange rate, 400-408, 409-417; in full-employment equilibrium, 187-188; in goods market equilibrium, 110-112 Goldfajn, Ilan, 361, 538, 667

goods and services: balance of payments accounts, 37 goods market equilibrium: absorption approach, 106; aggregate demand policies, effect of, 105; aggregate demand shocks, effect of, 106–108; aggregate supply shocks, effect of, 108–110; calculation, 104; external shocks, effect of, 105; GG curve, 192–193; GM curve, 110–112; non-policy domestic aggregate demand shocks, effect of, 105; overview, 98, 112–113; supply shocks, effect of, 105; variables affecting, 104–105 goods market shocks: and floating exchange rates, 404–405; and short-run equilibrium, 404–405 government: in benchmark model, 564; budget constraint, 125, 200; purchases of newly produced

goods and services, 24

- gradualism, 315
- Granger causality, 601–602
- graphing functions, 95
- Great Recession: in Asia and Pacific, 724-725, 732-734, 738-739; background to, 706-720; banks, role of, 729-730; central banks, role of, 730; in Europe, 725-726, 734, 739-740; and financial institution solvency, 721; and fiscal contraction, 722-723; fiscal reforms, effect of, 730; flexible exchange rates, effect of, 730; in Latin America, 726-728, 735-736, 740-741; liquidity agreements, effect of, 731-732; macroeconomic effects of, 738-742; in Middle East and Central Asia, 728-729, 736-737, 741; origins of, 720-721; overview, xiii, 705-706, 742-743; policy responses to, 732-738; reserve accumulation, effect of, 730-731; and risk aversion, 722; and stock markets, 721-722; in sub-Saharan Africa, 729, 737-738, 741-742; transmission of, 721-729; vulnerability to, 729-732
- Greece: hyperinflation in, 321–322
- Grisanti, Alejandro, 280
- gross domestic product (GDP): defined, 23; expenditure shares in, 25–26; GDP deflator, 30; measurement, 24–25; national income and products accounts, 23–25
- gross national income: calculation of, 29; comparison of, 27; table, 28
- gross national product: defined, 25–27; national income and products accounts, 25–27
- gross national saving, 39
- gross private domestic investment, 24
- gross substitutes assumption, 141
- growth: accounting, 82; defined, 81; development, effect of, 490–494; effect on development, 489–490; financial repression, effect of, 507–509; investment as growth determinant, 49–51; resource allocation efficiency as growth determinant, 51–52; sources of growth by region, 83; total factor productivity as growth determinant, 46–48. *See also* high inflation and long-run growth; long-run growth and short-run macroeconomics

754

Index

growth-inflation correlation: cross-country evidence, 60-65; evaluation of evidence, 67-71; regression analysis, 65-67 Guatemala: liquidity in, 736; remittance inflows, 728 Guidotti, Pablo, 493 Guinea-Bissau: and remittance inflows, 718 Gulde, Anne-Marie, 434 Haiti: and remittance inflows, 728 Hall, Robert E., 23 hard exchange rate pegs, 423 Hausmann, Ricardo, 487-488 Hernandez, Leonardo, 604, 605 heterodox inflation stabilization, 298, 318, 320-321 high inflation and long-run growth: and capital flight, 302; and debt default, 297; distortion in information content of relative prices, 303; evidence re, 304-307; and high real interest rates, 300-301; as indicator of government competence, 303; instrumental variable estimation techniques, 304-306; Mundell-Tobin effect, 300, 304; overview, 296-299, 323-324; and "shoe-leather costs," 303-304; table, 297; and taxation of capital, 302-303; theory, 299-304; uncertainty caused by, 303; and working capital, 301-302 high-powered money, 559 high yield bonds, Hodrick-Prescott filter, 35 home bias, 140 Honduras: interest rates in, 735 "honeymoon effect," 460 Hong Kong: capital inflows in, 708; China, effects of exports from, 666; currency boards in, 439, 441, 691-692; currency crisis in, 675; as emerging economy, 5; equity markets in, 709; fiscal stimulus in, 733; liquidity in, 733; total factor productivity growth in, 518, 520 Honohan, Patrick, 505-506 household allocation of resources, 58-59 household consumption, 24 household production, 31 Hulten, Charles R., 23 Hungary: bond and equity markets in, 711; budgets in, 734; fiscal policy in, 740; hyperinflation in, 321-322; IMF adjustment programs in, 734; inflation targeting in, 355; private sector debt in, 712; privatization in, 291 Hutchinson, Michael, 640-641 hyperinflation, 321-322 identities, 21 idiosyncratic risk, 475 Ikhide, S.I., 506 illiquidity, 652 IMF. See International Monetary Fund (IMF)

imperfect capital mobility, 120, 147 importables real exchange rate, 372 "impossible trinity," 428-429 impulse response functions, 602 imputations for owner-occupied housing: and real GDP, 31 incentive-compatible contracts, 480 income: defined, 24; distribution, 31; per capita, classification of countries by, 7-8; relationship with wealth, 22, 23 independence of central banks: conservative governors, role of, 336; evidence re inflation, 340-342; formal indicators of, 341-342; formulation of policy, 341; goal independence, 357; informal indicators of, 342; instrument independence, 357; lending to government, role of, 336, 342; price stability mandates, 336, 337, 341-342; pro-inflation bias, as solution to, 334-336; relationship with price stability, 341, 342; reputation as inflation "hawk," 336-340; terms of office of governors, role of, 341 indexing, 33 India: debt/GDP ratio in, 708; domestic lending in, 668; as emerging economy, 5; equity markets in, 709; fiscal stimulus in, 733; inflation-growth correlation in, 62; integration in, 681, 725; interest rates in, 732; Mexican crisis, effect of, 599 Indonesia: capital inflows in, 579; currency boards in, 439; deficits in, 687; devaluation in, 733; as emerging economy, 5; exchange rate flexibility in, 591; exchange rates in, 708; financial reform in, 545-546; fiscal stimulus in, 733; IMF response to crisis in, 699; liquidity in, 733; Mexican crisis, effect of, 599; nominal anchors in, 427; "overheating" in, 596; sovereign risk premium in, 708; sterilization in, 668; total factor productivity growth in, 518; unsustainability in, 55 industrial policy, 502 industry-specific banking crises, 635-636 inflation .: announcements, 353-354; in Argentina, 239; chronic inflation, 322-323; elasticity of demand for money with respect to, 238; expectations, xi-xii; and FF curve, 193-195; fiscal adjustment required, 237-239; and full-employment equilibrium, 190; and GG curve, 192-193; hyperinflation, 321-322; and medium-run equilibrium, 190-191, 196-197, 209-211; offsetting changes in expected future rate,

209–211; offsetting changes in expected future rate, 197–198; and perfect capital mobility, 197–198; rate of, 33; "surprise" inflation, 333; tax, 239, 330. *See also* high inflation and long-run growth; inflation stabilization; inflation targeting; pro-inflation bias

inflation-growth correlation: cross-country evidence, 60–65; evaluation of evidence, 67–71; regression analysis, 65–67

[&]quot;immiserizing" of borrowing, 544, 583-585

Index

inflation stabilization: and AD curve, 308–317; case studies, 320–323; chronic inflation, 322–323; costs of, 307–308; cross-country evidence, 319–320; and AS curve, 308–317; defined, 298; evidence, 319–323; exchange rate-based stabilization, 298, 318; exchange rate policy re, 432–434; and fixed exchange rates, 434; hyperinflation, 321–322; modeling of, 308–317; money-based stabilization, 298, 318; nominal anchors, 298–299, 320; orthodox *versus* heterodox, 298, 318, 320–321; overview, 296–299, 323–324; strategies for, 317–318; theory, 307–318

- inflation targeting: in Argentina, 355; in Australia, 355; in Brazil, 355; in Canada, 355; in Chile, 355; in Colombia, 355; and commitment mechanisms, 347-355; components of, 355-356; and consumer price index, 359; in Czech Republic, 355; defined, 355-356; evidence re, 360-363; in Finland, 355; horizon of, 359; in Hungary, 355; implementation of, 357-360; institutional issues, 358; introduction of, 355; in Israel, 355; in Korea, 355; in Mexico, 355; in New Zealand, 355, 360; overview, xii-xiii, 346-347, 363-364; in Peru, 355; point estimate versus band, 360; in Poland, 355; in practice, 360; prerequisites for, 357; price level versus rate of inflation, 359; in South Africa, 355; in Spain, 355; specification of target, 358-360; in Sweden, 355; and Taylor rules, 361-363; in Thailand, 355; and time inconsistency, 356-357; in United Kingdom, 355
- insolvency: defined, 54; prospective, 54 instrumental variable estimation techniques, 71, 304–306
- integration: and 1990s emerging market crises, 681–685; among advanced, emerging and developing economies, 11; in Asia and Pacific, 707–708, 710, 724–725; and band width, 461–462; and capital inflows, 684–685; in China, 681, 725; classification of countries by effective degree of, 10; and domestic distortions, 683–684; in Europe, 710–711; and external shocks, 681–683; IMF on, 724; in India, 681, 725; in Latin America, 712–713; in Malaysia, 681; overview, 681; in sub-Saharan Africa

interest rate rule monetary policy, 127

- interest rates: in Asia and Pacific, 732, 733; banking crises, high interest rates causing, 636–637; ceilings, 499; differentials and budget deficits, 220–222; in Latin America, 735; and short-run equilibrium, 159; in sub-Saharan Africa, 548, 550, 737; targeting, 127. *See also* domestic interest rate; foreign interest rate; real interest rate
- intergenerational equity, 264–265 intergenerational redistribution, 269–270
- internal balance, 181
- international environment: volatility in emerging economies, changes causing, 173

- international investment position: bond market equilibrium, effect of changes on, 140–141; defined, 129
- International Monetary Fund (IMF): adjustment programs, 734; and Asian fiscal crisis, 267; on capital inflows, 595; classification of countries by, 4–5; geographical classification of countries by, 706–707; Global Integrated Monetary and Fiscal model, 739; Indonesia, response to crisis in, 699; on integration, 724; Korea, response to crisis in, 699; liquidity agreements, 731–732; on responses to Great Recession, 733, 734, 737–738; on sub-Saharan Africa, 718, 719; Thailand, response to crisis in, 699
- intertemporal budget constraint: of consolidated public sector, 218–220, 226; debt dynamics, 229–234; defined, 217; fiscal adjustment required, 237–239; market creditors, role of, 224–225; overview, 217–218, 239–240; solvency condition, impact of, 225–229
- intertemporal tax smoothing, 265-266
- intratemporal relative prices, 51
- investment: expected return, effect of macroeconomic policies on, 52–53; as growth determinant, 49–51; in intangible assets, 31; macroeconomic policies, effect of, 52–56; opportunity cost, effect of macroeconomic policies on, 56; private returns on, 49; rates, 517; and real interest rate, 50–51; uncertainty about future returns, effect of macroeconomic policies on, 53–56; uncertainty in, 49–50; unsustainability, effect of, 54–56; volatility, effect of, 53–54
- investment grade bonds,
- Iran: and commodity prices, 715; deficits in, 737
- Iraq: and commodity prices, 715
- Isaksson, Anders, 23
- Israel: chronic inflation in, 322–323; currency crisis in, 675; inflation-growth correlation in, 61, 62; inflation targeting in, 355; price stability mandates in, 337
- Italy: currency crisis in, 676; sustainable debt in, 247

Jamaica: interest rates in, 735

Japan: financial deepening in, 514–515; financial policy in, 510–512, 513; financial reform in, 547–548; monetary policy in, 664; savings rates in, 516; sustainable debt in, 247; total factor productivity growth in, 518

Johansen maximum-likelihood method, 666

Jones, Charles I., 23

Jordan: and commodity prices, 715; debt/GDP ratio in, 717

Kahn, Robert, 603 Kaminsky, Graciela, 683–684

756

Index

Kazakhstan: banking crisis in, 741; banks in, 716; and commodity prices, 715; contagion in, 728; fiscal policy in, 716
Kenya: financial reform in, 549; financial sector taxes in, 506; integration in, 718; portfolio flows in,
718
King, Robert G., 493, 545–546
Kirchgassner, Gebhard G., 280
Kletzer, Kenneth, 603
Klingebiel, D., 633
Korea: capital inflows in, 579; China, effects of exports from, 666; deficits in, 687; devaluation in, 733;
domestic lending in, 668; as emerging economy, 5;
exchange rates in, 708; financial deepening in,
514–515; financial policy in, 511–512, 513; financial
reform in, 545–546, 547–548; fiscal stimulus in, 733;
IMF response to crisis in, 699; inflation targeting in, 355; interest rates in, 732–733; Mexican crisis, effect
of, 599; savings rates in, 516; total factor
productivity growth in, 518, 520
Kroszner, R., 633
Krugman, Paul R., 460, 685
Kuwait: and commodity prices, 715
Laban, Raul, 588
labor market: aggregate demand for labor, 84–86;
aggregate supply of labor, 86–88; classification of
countries by labor market structure, 14–17; and
equilibrium employment, 91–92; equilibrium in,
89–90; formation of expectations, 88–89; and full
employment, 90–91, 92; overview, 84
Laeven, L., 633
Laffer curve, 303
Larrain, Felipe, 588
Laspeyres index, 29–30
Latin America. See specific countries
Latvia: budgets in, 734; fiscal policy in, 740; IMF
adjustment programs in, 734; private sector debt in, 712
Lawson, Nigel, 684
Lawson-Robichek doctrine, 684
Lebanon: and commodity prices, 715; debt/GDP ratio
in, 717
Le Fort, Guillermo V., 538
Lehman Brothers, 705, 721, 733, 735
Leiderman, Leonardo, 601–602
leisure and real GDP, 31
lender of last resort function, 530-531
Lesotho: exchange rates in, 718; and remittance
inflows, 718
Levine, Ross, 64, 490, 493–494, 545–546
Levine-Renelt variables, 67
Liberia: dollarization in, 255
Libya: and commodity prices, 715; fiscal stimulus in, 737
limited liability, 479

liquidity: agreements, 731-732; in Asia and Pacific, 733; in Latin America, 736; in Middle East and Central Asia, 737; problems, 476; requirements, 499 list versus transaction price bias, 34 Lithuania: currency boards in, 439; fiscal policy in, 740 living standards: comparison of, 27 Loayza, Norman, 667 long-run equilibrium real exchange rate, 375–376, 379-380 long-run fundamentals, 375–376 long-run growth and short-run macroeconomics: analytics, 52-60; cross-country evidence re, 60-71; evaluation of evidence re, 67-71; growth determinants, 46-52; in 1990s, 69-72; overview, 45-46, 72; regression analysis, 65-67; table, 62. See also high inflation and long-run growth long-run misalignment, 377 long-term capital flows, 36-37 long-term debt, 698 Lopez, J. Humberto, 667 Loungani, Prakash, 666 macroeconomic accounts, 21, 43. See also balance of payments (BOP); national income and product accounts (NIPA) macroeconomic adjustments: and exchange rates, 435-439 macroeconomic framework, 17 Madagascar: interest rates in, 548 Malawi: financial reform in, 549 Malaysia: banking crisis in, 643-644; capital account restrictions in, 538; capital inflows in, 579; domestic lending in, 668; equity markets in, 709; exchange rate flexibility in, 591; exchange rates in, 708, 709; fiscal stimulus in, 733; inflation-growth correlation in, 62; integration in, 681; liquidity in, 733; Mexican crisis, effect of, 599; "overheating" in, 596; savings rates in, 516; sovereign risk premium in, 708; sterilization in, 668; total factor productivity growth in, 518 Mamingi, Nlandu, 602 managed exchange rate, 13

managed float exchange rate: defined, 126; development, effect on, 432; in Latin America, 714; overview, 423; and short-run equilibrium, 407–408

marginal product: aggregate production function, 79

marginal revenue product of labor, 84-85

market creditors: intertemporal budget constraint, role in, 224–225

Masson, Paul R., 251–252

mathematical functions: functional notation, 95;

graphing functions, 95

Mathieson, Donald J., 588

maturity transformation, 529

Mauritania: debt/GDP ratio in, 717; interest rates in, 548

718 McDill, Kathleen, 640-641 McKinnon, Ronald I., 553-554 mean-zero serially correlated random shocks, 61 mean-zero stationary random variables, 383 medium-run equilibrium: adjustment dynamics, 205-209; creation of model, 199-201; depreciation, effect of change in expected future rate of, 190-191, 195-196; domestic credit, effect of changes in, 205-207; exchange rate policy, effect of, 207-209; FF curve, 193-195; financial stocks considered in, 198-205; and full-employment equilibrium, 185-190; GG curve, 192-193; inflation, effect of change in expected future rate of, 190-191, 196-197; and nominal wages, 182-185; overview, 180-182, 211-212; solution of model, 201-205; and sustained inflation, 209-211

Mauritius: inflation targeting in, 719; integration in,

medium-run equilibrium real exchange rate: bond market equilibrium condition, 381; defining equilibrium, 374–376; external balance condition, 381; goods market equilibrium condition, 381; long-run misalignment, 377; misalignment, 376–379; model of, 381–383; Nurksian equilibrium, 381–383; overview, 373–374; short-run misalignment, 376; ultra-long-run misalignment, 377

medium-run Phillips curve, 432

Mexico: asset price collapses in, 727; balance of payments accounts in, 38; banking crisis in, 644-645; capital inflows in, 579; causes of currency crisis, 674; chronic inflation in, 322-323; credit markets in, 714-715; currency boards in, 439; currency crisis in, 658-662, 675, 686-687, 692-693; domestic currency debt in, 714; as emerging economy, 5; exchange rate flexibility in, 591; financial crisis in, 682, 684; fiscal policy in, 736; fiscal stimulus in, 735-736; fundamentals, role in crisis, 454; independence of central bank, 256; inflation targeting in, 355, 714; interest rates in, 714; international transactions by, 36; lessons from currency crisis, 674-676; liquidity in, 736; managed float exchange rates in, 714; misalignment in, 667, 674; potential GDP in, 35; privatization in, 291; real GDP in, 741; remittance inflows, 728; reversals of capital inflows in, 597-599; Solidarity Pact, 658, 660; sovereign spreads in, 712-713; stock markets in, 715; terms of trade in, 728; unsustainability in, 55

Middle East. *See specific countries* Minella, Andre, 361

misalignment: and 1990s emerging market crises, 690–691; causes of, 377; costs of, 377–378; evidence re, 378–379; long-run misalignment, 377; of medium-run equilibrium real exchange rate, 376–379; in Mexico, 667, 674; in 1990s emerging market crises, 690–691; overview, 54; of real exchange rate, 58; short-run misalignment, 376; in Thailand, 664–667, 674; ultra-long-run

misalignment, 377; unsustainability, caused by, 54 Mishkin, Frederic S., 358, 641

mitigation of sovereign credit risk: locking in future fiscal adjustments, through, 257–258; overview, 252–253; signaling, through, 253–257

MM curve: BB curve distinguished, 153; domestic credit, behavior of, 156; and floating exchange rate, 400–408, 409–417; monetary expansion, effect of, 156–157; overview, 153; position of, 156; relative slopes of MM and BB curves, 154–155; slope of, 154

model-consistent expectations, 89

monetary base, 559

monetary expansion: as permanent shock, 412; as two-period shock, 415–417

monetary identity, 132

monetary institutions. See central banks

monetary neutrality: in exchange rate management, 426–427

monetary policy: in Asia and Pacific, 710; assumptions re, 570; and bank portfolio allocation, 571-572; in benchmark model, 568-572; bond market equilibrium, effect of changes on, 137-139; and central banks, 127; classification of countries by, 12-13; currency boards, 342-343; and currency mismatches, 694-696, 700-701; direct microeconomic effects on development, 330; dollarization, 343; domestic credit rule, 127; in Europe, 734; exchange rates, relationship with, 425; feedback rule, 127; fixed exchange rate with perfect capital mobility, 342; under high capital mobility, 696; indirect macroeconomic effects on development, 330-331; interest rate rule, 127; in Japan, 664; in Latin America, 714, 735; market interest rates and demand for deposits, relationship between, 570-571; in Middle East and Central Asia, 737; monetary rule, 127; money growth rules, 342; 1990s emerging market crises, lessons from, 693-697, 701; official exchange rate, dangers of, 693-694; overview, 18; reserve requirements, 696–697; "rules of the game," 694; short-run equilibrium, effect on, 159-163; standard case, 569-570; in sub-Saharan Africa, 719-720

monetary rule monetary policy, 127

monetization: and central banks, 128–129; and revaluation accounts, 148–149

money-based inflation stabilization, 298, 318

money growth: fiscal deficits, financing, 218–223, 234–236; rules, 342; sources of, 224

money illusion, 426

money market equilibrium: and financial markets, 136–137; and floating exchange rates, 402–403

money market shocks: and floating exchange rates, 403–404; and short-run equilibrium, 403–404

More information

758

Index

money multiplier, 593-594 money supply: announcements, 353; and central banks, 132-133; change in, 220; and MM curve, 153-157; monetization, effect of, 148-149; no monetization, effect of, 148; retirement of debt, effect of, 149; and short-run equilibrium, 159; targeting, 127 "monsoon effects," 533 Montiel, Peter J., 69, 70-71, 537 Moody's, 249, 671 moral hazard: and banks, 527; defined, 478 Morocco: and commodity prices, 715; fiscal policy in, 737; and remittance inflows, 715 Mozambique: integration in, 718 multilateral real exchange rate, 373 multiple regressions, 66 Mundell, Robert, 300 Mundell-Fleming models, 99, 371 Mundell-Tobin effect, 300, 304 Nadal-De Simone, Francisco, 538 Namibia: exchange rates in, 718; integration in, 718 narrow money, 502 Nash equilibrium, 338 national income, 22 national income and product accounts (NIPA): aggregate identities, 39-40; current account, 27-29; gross domestic product, 23-25; gross national product, 25-27; overview, 22; potential GDP, 33-35; price level, 30–33; real GDP, 29–30, 31–32; sectoral identities, 40-42 national versus domestic, 22 national wealth, 22 natural resources depleted and environment befouled, 31 net domestic product, 23 net exports, 25, 101-102 net investment income, 25 net unrequited transfers, 28 new goods bias, 34 Newmann, Manfred J.M., 361 New Zealand: inflation targeting in, 355, 360 Neyapti, Bilin, 340-341, 342 Nicaragua: deficits in, 627 Niger: inflation-growth correlation in, 62 Nigeria: and commodity prices, 717; debt accumulation in, 620-621; financial reform in, 549; financial sector taxes in, 506; integration in, 718; interest rates in, 550; portfolio flows in, 718 1980s sovereign debt crisis: interpretation of evidence re, 626-628; in Latin America, 627; macroeconomic effects of, 624-626; overview, 620; policy responses to, 622-624; run-up to, 620-621; triggering events, 621-622 1990s emerging market crises: and capital account restrictions, 689-690; currency crises, causes of,

685-689; and currency mismatches, 694-696, 700-701; and exchange rate credibility, 691-693; and exchange rates, 699-700; fiscal policy lessons from, 698, 701; integration, benefits and costs of, 681-685; and misalignment, 690-691; monetary policy lessons from, 693-697, 701; overview, 680-681; recommendations from, 702-703; structural reforms, need for, 699 NIPA. See national income and product accounts (NIPA) nominal anchors: central parity as, 456-457; in Chile, 427; in Costa Rica, 427; and exchange rate management, 425-426, 427; in Indonesia, 427; and inflation stabilization, 298-299, 320 nominal devaluation: and short-run equilibrium, 165-167 nominal exchange rate: bond market equilibrium, effect of changes on, 143-144; defined, 13 nominal GDP, 29 nominal interest rate: real interest rate distinguished, 191-192 nominal wages: and full-employment equilibrium, 182 - 185nonbank private sector: in benchmark model, 559-562 nonexcludable information, 526 nonrivalrous information, 526 nonsatiation, 471 Nordhaus, William, 31 Norway: banking crisis in, 642-643 Nurksian equilibrium, 381-383 official exchange rate: dangers of, 693-694; defined, 126; exchange rate management, 448-449, 463-464

- official foreign exchange intervention, 37–38
- official international reserves, 37
- official reserve settlements balance, 37-39
- oil price shocks, 621
- Oman: and commodity prices, 715
- omitted variable bias, 68
- one-good model, 371
- open market operation, 127
- openness in emerging economies, 9
- opportunity cost: defined, 31; macroeconomic policies, effect of, 56
- optimal fiscal deficits: direct microeconomic effects of fiscal policy, 262–263; effects of fiscal policy, 262–263; implications for fiscal policy, 263–267; indirect macroeconomic effects of fiscal policy, 263; and intergenerational equity, 264–265; and intertemporal tax smoothing, 265–266; and maintaining low tax rate, 263; and maximizing productivity, 263; overview, 262; and short-run macroeconomic stabilization, 263; and stabilization of aggregate demand, 266

orthodox inflation stabilization, 298, 318, 320–321 Osterholm, Par, 712

Ostry, Jonathan, 434, 589 outlet substitution bias, 34 outward-oriented development strategies, 431 overhangs. See debt overhangs "overheating," 586. See also destabilization caused by capital inflows overview, 3-4, 19 Paasche index, 29-30 Packer, Frank, 249-251 Padou, Jean Jose, 251-252 Pagano, Marco, 653-654 Page, John, 518 Pakistan: and commodity prices, 715; inflation-growth correlation in, 62; Mexican crisis, effect of, 599 Panama: dollarization in, 255; fiscal policy in, 713; fiscal stimulus in, 735-736; stock markets in, 715 panel data, 304-305 Paraguay: fiscal policy in, 736; fiscal stimulus in, 735-736; inflation targeting in, 714; interest rates in, 735 Pareto efficiency: in financial intermediation, 475-476 Patrick, Hugh T., 516 Pazos, Felipe, 321 pegged exchange rate: choice of peg, 457; empirical evidence re, 454-456; feasibility of, 453-454; and high capital mobility, 450-456; self-fulfilling speculative attacks, 451-453 perfect capital mobility: defined, 120, 147; and depreciation, 196, 198; fixed exchange rate with, 342; and floating exchange rates, 395; and inflation, 197-198 perfect foresight, 89 perfect wage flexibility, 87 permanent shocks: fiscal expansion as, 411-412; and floating exchange rates, 409-413; increase in foreign interest rate as, 412-413; monetary expansion as, 412 Peru: domestic currency debt in, 714; fiscal policy in, 713, 736; fiscal stimulus in, 735-736; inflation targeting in, 355, 714; interest rates in, 714; liquidity in, 736; managed float exchange rates in, 714; price stability mandates in, 337; real GDP in, 741; sovereign spreads in, 712-713; stock markets in, 715; terms of trade in, 728 Philippines: banking crisis in, 643-644; contagion in, 682; debt accumulation in, 620-621; domestic lending in, 668; exchange rates in, 708; financial reform in, 545-546; fiscal stimulus in, 733; independence of central bank, 256; investment/GDP ratio in, 624-625; price stability mandates in, 337; sovereign risk premium in, 708; sterilization in, 668 Phillips curve, 299 Pinochet, Augusto, 644

Poland: bond and equity markets in, 711; currency crisis in, 675; hyperinflation in, 321-322; inflation targeting in, 355; liquidity agreements, 732; privatization in, 291 political business cycles, 268 political economy of fiscal deficits: asymmetrical stabilization in response to shocks, 268; debt as constraint on future governments, 270-271; fiscal illusion hypothesis, 268-269; interactions among multiple groups, 271-273; intergenerational redistribution, 269-270; overview, 267-268; in parliamentary systems, 272-273; political business cycles, 268; in presidential systems, 273; and self-interested behavior, 271-273 portfolio allocation decisions: of central bank, 125-129; defined, 121; of domestic private sector, 121-124; overview, 121; of rest of world, 130-131 positive rate of time preference, 471 potential GDP: defined, 33-35; national income and products accounts, 33-35

Prati, Alessandro, 653

precommitment mechanisms, 334

predetermined variables, 122

preserving utility: and real GDP, 31

price level: national income and products accounts, 30-33; targeting, 114

price signals: and allocational efficiency, 58-59

primary deficit, 200, 220

principal-agent problem: and banks, 527; defined, 279-280

principal component analysis, 601

private firms: allocation of resources, 58-59

private sector: debt runs, 654-658

privatization: in Argentina, 291; in Brazil, 291; efficiency arguments for, 286, 289; fiscal arguments for, 286-287; fiscal effects of, 287-290; in Hungary, 291; in Mexico, 291; overview, 284-285, 293; in Poland, 291; World Bank study re, 290-293

probit analysis, 454-455

procedure-oriented fiscal institutions: collegial rules, 279; delegation of authority, 278; empirical evidence, 280; hierarchical rules, 279; overview, 277-278; principal-agent problem in, 279-280; procedural rules, 279; transparency, 279-280

procyclical fiscal policy, 267, 669, 737

pro-deficit bias, 262, 267

production and trade structure: classification of countries by, 8–9

production possibilities frontier, 46-47

product wage, 86

pro-inflation bias: defined, 331; independence of

central banks as solution to, 334-336; sources of, 331-334; and time inconsistency, 331-334 public goods, 526

public policy: financial markets, 486-489; financial reform, 530-534

More information

760

Index

public sector: allocation of resources, 57-58; debt runs, 653-654; debt versus reserve financing, 221; and sterilization, 221 purchasing power parity approach, 383-384, 427 purchasing power parity exchange rate, 27 "pure" contagion, 533-534 Qatar: and commodity prices, 715 quality bias, 34 Quirk, Peter J., 538 random walk, 460 rate of inflation. 33 rational expectations, 89 real assets, 118 real effective exchange rate, 373 real exchange rate: analytical issues, 370-372; appreciation of, 107; complete specialization models, 371; and demand for domestic goods, 100; dependent economy models, 371-372; desired equilibrium real exchange rate, 376; exportables real exchange rate, 372; importables real exchange rate, 372; long-run equilibrium real exchange rate, 375-376, 379-380; mean-reverting, 384; measurement issues, 372-373; misalignment, 58; multilateral real exchange rate, 373; Mundell-Fleming models, 371; one-good model, 371; overview, 7; real effective exchange rate, 373; short-run equilibrium real exchange rate, 375; Swan-Salter models, 371-372; targeting, 115, 208, 457-459; in Thailand, 387; three-good model, 372. See also equilibrium real exchange rate;

see also equilibrium real exchange rate; medium-run equilibrium real exchange rate; misalignment

real GDP: defined, 29; national income and products accounts, 29–30, 31–32

real interest rate: defined, 49; and investment, 50–51; natural real interest rate, 56; nominal interest rate distinguished, 191–192; overview, 7

real output, 78

real shocks, 168 real wage, 86

recessions: banking crises, causing, 637. See also Great Recession

regression analysis: cross-country growth regressions, 65–67; first-stage regression, 305; and inflation, 65–67; multiple regressions, 66

regulation of banks, 532-534

Reinhart, Carmen, 13–14, 247–250, 251, 254, 296, 297, 537, 538, 601–602, 683–684 Reinhart-Rogoff default episodes, 629

Reisen, Helmut, 544–545

relative prices: and allocational efficiency, 58

remittance inflows, 718, 728

Renelt, David, 64 reserve requirements, 499, 696–697

Se

resource allocation efficiency: as growth determinant, 51–52 rest of world: and asset demand functions, 130–131;

balance sheets of, 130–131; in benchmark model, 564; portfolio allocation decisions of, 130–131

restrictive covenants, 479 revaluation accounts, 148–149

revaluation accounts, 140–149

reversals of capital inflows: causes of, 597–598; in Chile, 597–598; evidence re, 598–599; in Mexico, 597–599; overview, 596–597

risk aversion, 49, 471, 472

risk neutrality, 472

risk premium: country risk premium, 56; defined, 49, 475. *See also* sovereign risk premium

Robichek, Walter, 684

robustness, 68

Rodrik, Dani, 519-520

Rogoff, Kenneth S., 13-14, 247-250, 251, 254, 296, 297

Rojas-Suarez, Liliana, 588

Romania: budgets in, 734; fiscal policy in, 740; IMF adjustment programs in, 734

Rose, Andrew K., 454-455, 490

Roubini, Nouriel, 509

RR curve, 157-158

Rudolf, Heinz, 604, 605

Russia: currency boards in, 439; as emerging economy, 5; financial crisis in, 682; hyperinflation in, 321–322; surplus in, 711

sacrifice ratio, 317

Sahay, Ratna, 296–298

Sala-i-Martin, Xavier, 509

Sarel, Michael, 70, 520

Sarno, Lucio, 604

Saudi Arabia: and commodity prices, 715; fiscal stimulus in, 737; inflation-growth correlation in, 62

Savastano, Miguel, 247-250, 251, 254, 296

savings rates, 515-516

Schadler, Susan, 603

Schmidt-Hebbel, Klaus, 238-239

secondary markets, 118

second-generation models: of currency crises, 651, 685–686

securitization: of mortgage loans, 720

seignorage revenue: in Congo, 239; defined, 12, 54, 223; and financial repression, 502–504

Senegal: inflation-growth correlation in, 62; and remittance inflows, 718

sequencing of financial reform: broad components, 543–544; McKinnon on, 553–554; overview, 541–542; specific reform measures, 544–545; Turtleboom on, 553; Williamson on, 554–555

sequential servicing constraint, 529

Serbia: budgets in, 734; IMF adjustment programs in, 734

Serven, Luis, 69

Index

Seychelles: integration in, 718 shocks: asymmetrical stabilization in response to, 268; and band width, 462; banking crises, adverse terms of trade shocks causing, 637; benchmark model, effect on, 572-574; domestic policy shocks, 165-167, 173; exchange rates, effect on, 437-438; goods market shocks, 404-405; mean-zero serially correlated random shocks, 61; money market shocks, 403-404; oil price shocks, 621; real shocks, 168; transitory shocks, 394. See also aggregate demand shocks; aggregate supply shocks; external shocks; permanent shocks; two-period shocks "shoe-leather costs," 303-304 short-run equilibrium: aggregate demand shocks, effect of, 159-170; aggregate supply shocks, effect of, 170-172; description of, 158-159; and domestic credit targeting, 158-159; domestic policy shocks, effect of, 165-167; export demand, effect of changes in, 169-170; external aggregate demand shocks, effect of, 168-170; and external shocks, 405-407; fiscal policy, effect of, 163-165; with floating exchange rates, 400-408; foreign interest rate, effect of changes in, 168-169; and goods market shocks, 404-405; and interest rate targeting, 159; monetary policy, effect of, 159-163; and money market shocks, 403-404; and money supply targeting, 159; nominal devaluation, effect of, 165-167; overview, 152-153, 174-175; sovereign credit risk, implications of, 245-246 short-run equilibrium real exchange rate, 375 short-run fundamentals, 375 short-run misalignment, 376 short-run Phillips curve, 313 short-term capital flows, 36 Sigalla, Fiona, 34 signaling: by breaking fiscal taboos, 254-255; defined, 253; by establishing track record, 254; by tying one's hands, 255-257 Singapore: capital inflows in, 708; China, effects of exports from, 666; credit ratings in, 249; as emerging economy, 5; equity markets in, 709; fiscal stimulus in, 733; inflation-growth correlation in, 62; liquidity in, 733; savings rates in, 516; total factor productivity growth in, 518, 520 Singh, Ajit, 516 single-equation reduced form estimation, 386-388 Slattery, Noah, 31 "smooth pasting," 460 SOEs. See state-owned enterprises (SOEs) soft budget constraints, 286 soft exchange rate pegs, 423 solvency condition: intertemporal budget constraint, impact on, 225-229

Sorsa, Piritta, 538 Soto, Marcelo, 538

sources of growth by region, 83

sources of macroeconomic data, 42-43

South Africa: bond markets in, 719; exchange rates in, 718; Great Recession in, 729; inflation targeting in, 355, 719; integration in, 718; price stability mandates in, 337

South America. See specific countries

"Southern Cone." *See* Argentina; Chile; Uruguay South Korea. *See* Korea

- sovereign credit risk: and credit ratings, 249–251; determinants of, 246–252; fiscal implications of, 243–245; locking in future fiscal adjustments, mitigation through, 257–258; macroeconomic implications of, 245–246; mitigation of, 252–258; overview, 242–243, 258–259; signaling, mitigation through, 253–257; and sustainable debt, 247–249
- sovereign debt crises: in 1980s, 620–627; debt/GDP ratio, table, 621; and debt overhangs, 613–619; defined, 296, 612; domestic default, table, 630; evidence re, 619–620; external default, table, 629; overview, 611–613, 628; primary surpluses, table, 623
- sovereign risk premium: in China, 708; and contagion, 251; defined, 242; determinants of, 251–252; in Indonesia, 708; in Malaysia, 708; overview, 242–243, 258–259; in Philippines, 708; in Thailand, 708

sovereign spreads, 712–713

Spain: banking crisis in, 643–644; inflation targeting in, 355

specification error, 68

- speculation, 690–691
- stabilization: of aggregate demand, 266; asymmetrical stabilization in response to shocks, 268. *See also* inflation stabilization

Standard and Poor's, 249, 718

- standardized coefficients, 602
- state-owned enterprises (SOEs): economic role of, 285–286; efficiency arguments for privatizing, 286, 289; evidence of performance, 290–291; evidence on privatization, 291; evidence on reform, 291–293; fiscal arguments for privatizing, 286–287. *See also* privatization

static distortions, 584

static expectations, 88

"steady state," 376

Stein, Ernesto, 280

sterilization: and capital account restrictions, 538; destabilization caused by capital inflows, in response to, 592–593; fiscal implications of, 221; in Indonesia, 668; in Malaysia, 668; in Philippines, 668; in Thailand, 668

sterilized intervention: by central banks, 127-128;

defined, 128 sticky nominal wages, xi

Stiglitz, Joseph, 267

- stock markets: in Asia and Pacific, 724; in Great
 - Recession, 721–722; in Latin America, 713, 726

762

Index

stock versus flow, 21 structural models, 95 structural surpluses, 714 Sturzenegger, Federico, 619-620 subordinated debt, 648 sub-prime mortgage loans, 720 Sub-Saharan Africa. See specific countries substitution bias, 34 Sudan: deficits in, 737 "sudden stops," 611, 652-658, 686 Sundararajan, V., 643 supervision of banks, 532-534 supply and demand illustration, 95 supply wage, 87-88, 90 Suriname: fiscal policy in, 736 "surprise" inflation, 333 sustainable debt: in Belgium, 247; empirical evidence, 247-249; in Italy, 247; in Japan, 247; and sovereign credit risk, 247-249 sustained inflation: and full-employment equilibrium, 190; and medium-run equilibrium, 209-211 Swan-Salter models, 371-372 swaps, 673 Swaziland: exchange rates in, 718 Sweden: banking crisis in, 642-643; inflation targeting in. 355 syndicated loans, 597 Syria: and commodity prices, 715 systematic risk, 475 Tabellini, Guido, 653 Taiwan: China, effects of exports from, 666; credit ratings in, 249; as emerging economy, 5; equity markets in, 709; financial deepening in, 514-515; financial policy in, 511-512, 513; financial reform in, 547-548; fiscal stimulus in, 733; hyperinflation in, 321-322; interest rates in, 732; liquidity in, 733; savings rates in, 516; total factor productivity growth in, 518, 520 Talberth, John, 31 Talvi, Ernesto, 280 Tanzania: financial reform in, 549; financial sector taxes in, 506; integration in, 718; interest rates in, 550 target-oriented fiscal institutions: additional rules, 274; in Brazil, 277; budget rule, 274; in Chile, 276; coverage, 274; debt rule, 274; escape clauses, 274-275; overview, 274; sanctions, 275-277; statutes, 275

target zones, 423

taxation: of capital, 302–303; inflation tax, 239, 330; intertemporal tax smoothing, 265–266; optimal fiscal deficits and maintaining low tax rate, 263; sub-Saharan Africa, financial sector taxes in, 506; value added tax, 627 Taylor, Mark P., 604 Taylor rules, 361-363, 710 technology transfer, 48 terms of trade: banking crises, adverse terms of trade shocks causing, 637; defined, 8, 371; in Latin America, 728 TFP. See total factor productivity (TFP) Thailand: Bangkok International Banking Facility, 668-669; banking crisis in, 643-644; Bank of Thailand, 671, 672, 673; capital inflows in, 579; causes of currency crisis, 674; currency crisis in, 662-673, 686-687; domestic lending in, 668; effects of currency crisis, 670-673; exchange rate flexibility in, 591; exchange rates in, 708; financial crisis in, 682; financial sector vulnerability in, 668; fiscal stimulus in, 733; IMF response to crisis in, 699; inflation-growth correlation in, 62; inflation targeting in, 355; lessons from currency crisis, 674-676; macroeconomic policies in, 668-670; Mexican crisis, effect of, 599; misalignment in, 664-667, 674; "overheating" in, 596; real exchange rate in, 387; responses to currency crisis, 670-673; sovereign risk premium in, 708; sterilization in, 668; total factor productivity growth in, 518 Thimann, Christian, 516 third-generation models: of currency crises, 686 Thomas, Vinod, 590 three-good model, 372 time inconsistency: and inflation targeting, 356-357; and pro-inflation bias, 331-334 Tobin, James, 31, 300 Togo: and remittance inflows, 718 total factor productivity (TFP): in Asia and Pacific,

- total factor productivity (TFP): in Asia and Pacific, 518, 520; components of growth, 46–48; defined, 46; and financial repression, 517–520; as growth determinant, 46–48; growth in, 517–520; and production possibilities frontier, 46–47; and technology transfer, 48; World Bank on, 517–519
- trade elasticities approach, 384–385
- "tragedy of the commons," 271–272
- transaction costs: reducing to promote international commerce and capital flows, 432
- transitory shocks, 394
- Trinidad and Tobago: fiscal policy in, 736; stock markets in, 715
- Tunisia: and commodity prices, 715; fiscal policy in, 737; and remittance inflows, 715
- Turkey: bond and equity markets in, 711; as emerging economy, 5; fiscal policy in, 740; inflation-growth correlation in, 61; Mexican crisis, effect of, 599
- Turkmenistan: fiscal stimulus in, 737
- Turtleboom, Bart, 553
- twice continuously differentiable: aggregate production function, 79
- "twin crises," 633–634

two-period shocks: fiscal expansion as, 414–415; and floating exchange rates, 413–417; increase in foreign interest rate as, 417; monetary expansion as, 415–417

types of emerging market crises, xiii, 19, 612

- Uganda: financial reform in, 549; integration in, 718; interest rates in, 550; portfolio flows in, 718
- Ukraine: budgets in, 734; floating exchange rates in, 734; IMF adjustment programs in, 734

ultra-long-run misalignment, 377

- uncertainty: re future investment returns, 53–56 unit banks, 641
- United Arab Emirates: fiscal stimulus in, 737
- United Kingdom: currency crisis in, 676; inflation targeting in, 355
- United Nations: classification of countries by, 4
- United States: banking crisis in, 641; debt ceiling in, 274; Federal Reserve System, 720, 731–732; financial crisis in, 742; housing price collapse in, 720–721, 742
- unsterilized intervention, 128
- unsustainability: in Bolivia, 55; in Brazil, 55; financial sector fragility caused by, 54–55; in Indonesia, 55; investment, effect on, 54–56; in Mexico, 55; misalignment caused by, 54; prospective insolvency caused by, 54

Uruguay: asset price collapses in, 727–728; banking crisis in, 643–644; chronic inflation in, 322–323; inflation targeting in, 714 Uzbekistan: fiscal stimulus in, 737

Valdes, Rodrigo, 667 Valdes-Prieto, Salvador, 538 value added, 24 value added tax, 627 variance decompositions, 602 vector autoregressions, 602 Vegh, Carlos A., 296–298, 321–323 Venezuela: asset price collapses in, 727; capital inflows in, 579; deficits in, 627; fiscal policy in, 713, 736; independence of central bank, 256; interest rates in, 735; Mexican crisis, effect of, 599

Vietnam: interest rates in, 732

Vittas, Dmitri, 520–521

volatility: aggregate supply shocks causing, 173–174; domestic policy shocks causing, 173; international environment, changes causing, 173; investment, effect on, 53–54; table, 172

von Hagen, Jurgen, 361

voracity effects, 272

- wages: demand wage, 90; expected real wage, 87; flexible wages and floating exchange rates, 394–395; nominal wages and full-employment equilibrium, 182–185; product wage, 86; real wage, 86; sticky nominal wages, xi; supply wage, 87–88, 90 wealth, relationship with income, 22, 23
- Webb, Steven B., 340–341, 342

Werner, Alejandro, 661

Williamson, John, 554–555

Wolf, Holger, 434

- World Bank: on capital inflows, 595–596, 598, 605; classification of countries by, 4; on financial repression, 513; Mexican crises, study re, 454; privatization, study re, 290–293; on sub-Saharan Africa, 717; on total factor productivity growth, 517–519
- write-offs of debt overhangs, 616-617

Wynne, Mark, 34

Wyplosz, Charles, 278

Yemen: deficits in, 737

Zambia: financial sector taxes in, 506; integration in, 718; interest rates in, 548; portfolio flows in, 718 Zedillo, Ernseto, 660 Zettelmeyer, Jeromin, 712