Index

Bank for International Settlements (BIS) and Euro-yen time deposit liabilities, 178
Bond trading with repurchase agreements (gensaki), 176, 178
Budget deficit(s), empirical analysis of, 145–158
financing of, 142–143
fiscal thrust and, 150, 151
and intertemporal trade, 23–25
and public sector debt, trends in, 145, 148, 150
real and financial interactions under floating exchange rate and, 143–145
and real exchange rate(s) across countries, 152, 154–158
real-financial linkage and, 139–160
rise in, factors affecting, 141
under floating exchange rate(s), 140–145
financial linkages and, 142–143
real linkages and, 140–142
variables affecting, 150–152
equations for, 150–151

Competitiveness, international divergences from law of one price and purchasing power parity, 12–14
law of one price and, 11–12
measures of, 11–12
purchasing power parity and, 11–12
Consumer price index, final goods prices and, 76

Demand, dynamics of, 65–66

Euro-yen, time deposit liabilities of BIS (Bank for International Settlements) and, 178
Exchange rate(s), changes in, 49–69

Exchange rate(s), floating
budget deficits and, financial linkages under, 142–143
budget deficits and real linkages under, 140–142
budget deficits under, 140–145
real and financial interactions under, 143–145
link to domestic prices, 182
link to import or export prices, 182
model for limits of, 195–198, 205–206, 208

Exchange rate(s), nominal compared to real, 184, 186–187
and export prices, 183–184
and import prices, 183–184
Exchange rate(s), real, 71–93
based on GDP deflator, 80–83
based on prices of final goods, 83–85
compared to nominal, 184, 186–187
differential movement in, 72
GDP deflator compared to traded goods deflator, 80–81
and manufacturing, 88, 90–92
price level(s) and, 98–101
relative wage growth and, 86–88
sectoral production patterns and, 73–78
final goods prices, 76–78
GDP deflators, 75–76
value-added deflator, 73–75
tradables/nontradables structure and, 14–18
uncertainty in, 196
variability in, 193–209
cross-sectional approach to, 194–198
growth of exports and, 194–198
and growth rates of bilateral trade, 198, 201–203, 205
Index

Export(s), German, use of to measure extent of pricing to market, 52, 54

Final goods prices, 76–78
and consumer price index, 76
real exchange rates based on, 83–85
relative sectoral prices and, 85
and wholesale price index, 76

GDP, price level(s) for, 101–113
GDP deflators, 75–76
compared to traded goods deflator, 80–81
influence of unit labor costs on, 76
real exchange rates based on, 80–83
Gensaki (bond trading with repurchase agreements), 176, 178

Import price(s), use of to measure extent of pricing to market, 52

Japan, economy of, 168–171. See also Yen, internationalization of
current account movements in, 181–182
deregulation of, 179–181
financial side, 168, 170–171
real side, 168
Treasury Bills, lack of, 179–180

Law of one price, 8–12
equation of, 9
and international competitiveness, 11–12
and purchasing power parity, 12–14
relationship to purchasing power parity, 9–10
“relative” version of, 10

Linkage, real-financial
and budget deficits, 139–160
exogenous disturbances in supply and demand and, 36–37
government policy and, 37
intertemporal considerations and, 18–25
overview of, 5–31
reallocation in markets and, 35–36
uncertainty and, 38–42
in world without uncertainty, 34–38

Lucas-Stokey model for uncertainty, 37, 40

Market(s), asset
in open economies, 33–42

reallocations in factor and product markets and, 35–36
Market(s), financial. See also Uncertainty
exogenous changes in, 39
exogenous disturbances in supply and demand in, 36–37
government policies and, 37, 40
incomplete, 35
required for Pareto efficiency, 38
role of in world without uncertainty, 34
types of, 34–35
uncertainty and, 38–42

Market(s), goods. See also Uncertainty
in open economies, 33–42
portfolio allocations and asset prices, 41–42

Market(s), gray, 49

MERM (Multilateral Exchange Rate Model), and yen, 181

Money, functions of, 171

Oligopoly
Cournot competition in, 60
shortfalls of theory of, 62

Parity, purchasing power. See Purchasing power parity

PPP. See Purchasing power parity

Price(s), relative
dichotomy of, 7–8
equations for, 7–8

Price discrimination, monopolistic, 59–60
cost elasticity and, 60
linear demand curve and, 60
optimal price, equation for, 59

Price level(s), national
alternative norms for, 109–111
and current-account balance, 122
for GDP, 101–113
high-foreign trade/GDP ratios and, 100–101
for nontradables, 112–113, 121–122
and real exchange rate(s), 98–101
for tradables, 112–113, 120–122

Price structure, equilibrium of in open economies, 9

Pricing to market, 49–69
dynamic models of, 56, 62–69
demand, 65–66
reputation and pricing, 66–69
supply-side, 63–64
example of, 50–51
measurement of, 52, 54–55
relation to exchange rate, 49–50
static models of, 56–62
monopolistic price discrimination, 59–60
oligopoly, 60–62
supply and demand, 57–59
Productivity, growth in, 71–93
Purchasing power parity (PPP), 8–12
as covariations in laws of one price, 9
and international competitiveness, 11–12
law of one price and, 9–10, 12–14
“relative” version of, 10
theory of, 71–72

Reputation and pricing
equations for, 67
and price stickiness, 68
Risk premium, 142–143

Supply and demand
law of one price and, equation for, 57
price elasticity and, equation for, 57
shortfalls of theory of, 58–59
world market clearing, equation for, 57
Supply-side dynamics
and changing exchange rate, 64
and changing import volume, 63–64

Tradables/nontradables structure, and
exchange rates, 14–18
Trade
German–U.S., use of to measure extent of
pricing to market, 54–55
international, 5, 6
intertemporal
budget deficits and, 23–25
and financial liberalization, 19–23
real-financial linkage, 18–25
and structural linkage, 25–31
Traded goods deflator, compared to GDP
deflator, 80–81

Uncertainty. See also Market(s), goods
and financial market(s), 38–42
Lucas-Stokey model for, 40
in open economies, 38–42
and Pareto efficiency, 39
and real financial linkage, 38–42

Value-added deflator, 73–75

Wage growth, relative, and real exchange
rates, 86–88
Wholesale price index, final goods prices
and, 76

Yen
bankers’ acceptances and, 174
export invoicing in, 173–174
internationalization of, 167–189
Euro-yen bonds and, 175–176, 178
and international balances, 187–189
as minor nonvehicle currency, 171
real-financial linkage, 175–181
and real-financial transmission
mechanism, 181–187
real-monetary linkage, 171–174
yen-dominated bonds and, 175
as medium of exchange, 171–174
as store of value, 175–179
as unit of account, 171–174