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premise throughout is that cooperation is clearly a good idea but that the benefits of coordination of policies are ambiguous although likely to be beneficial.

The core analytical treatment is contained in Chapters 3 through 5. These chapters present the insights from the literature on policy optimization (Ch. 3), the literature on policy rules (Ch. 4), and the institutionalist literature (Ch. 5) under the assumption that the role of government cooperation is to correct some form of market failure. Chapter 6 then points out the possibility of government failure rather than market failure and explores whether in this case coordination can make things worse rather than better. Bryant acknowledges the possibility that coordination can be counterproductive but is clearly optimistic that the gains from coordination outweigh the possible costs.

In Chapter 7 the author shifts his focus from the theoretical desirability or otherwise of cooperation to asking what is feasible from a practical perspective, given that the real world may be more complex and uncertain than assumed in the analytical literature. It becomes clear in this chapter that Bryant believes cooperation between governments and greater coordination of policies on a more structured and regular basis are good ideas.

In Chapter 8 he departs from the analytical approach and presents some empirical evidence on the interdependence between economies from the leading multi–country models. Unfortunately this chapter is not as extensive as I would have preferred given the advances in multi–country modeling of the last decade (which Bryant has documented elsewhere). It would have been helpful in this chapter to have a summary table of results from a range of models to illustrate the magnitudes (and signs) of spillovers between economies as currently estimated rather than the more analytical presentation contained in Chapter 8. This would help the reader to understand the extent of interdependence. Nonetheless this information is available in the documents referenced throughout the chapter.

Chapter 9 looks back at the postwar historical record of cooperation. This is a clear and very useful summary of the experience at pol- icy cooperation in the postwar period. There are also some important lessons drawn from the historical experience. In particular, Bryant argues that the types of shocks that policy makers have faced have varied considerably and only in extreme crises does cooperation occur. He also argues that there is no apparent trend increase in cooperation despite the greater interdependence of economies. I agree with many of Bryant’s policy conclusions in Chapter 9, in particular that the key to the future of cooperation (and indeed the key to improving macroeconomic policy whether cooperative or noncooperative) is in developing the analytical frameworks for policy makers. This analytical support includes more extensive collection of better data as well as increased funding of research on economic interdependence.

In sum, this book is a valuable contribution to the policy debate on coordinating macroeconomic policies between economies. A particularly useful aspect of the study is the inclusion of critical comments by two leading researchers, Paul Masson and Takatoshi Ito. These comments provide the reader with some critical assessment of Ralph Bryant’s arguments and complement a very thoughtful book. I highly recommend this timely volume as essential reading for policy makers and scholars interested in the issue of coordinating macroeconomic policies in an increasingly interdependent global economy.

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This interesting volume provides a fairly comprehensive overview of advances in exchange rate economics in the two decades prior to its publication. It is very readable, relatively nontechnical, and of potential interest to students, research economists, and policy makers. Its coverage is quite broad, ranging from institutional and historical perspectives to theoretical and empirical models of exchange rate behavior, and to policy is-
issues. The volume is organized in three parts. Part I covers historical and institutional perspectives, Part II covers models of exchange rate behavior, and Part III focuses on exchange rate policies.

After a brief introductory chapter, Chapter 2, entitled "Foreign Exchange Markets and the Marketability of Money," traces the roots of money and exchange rates and provides a description of the modern foreign exchange market. Chapter 3, "Exchange Rate Arrangements and International Monetary Regimes" provides a detailed account of monetary regimes and exchange rate mechanisms since the eighteenth century. Special attention is paid to the international gold standard regime, the wartime and interwar regimes, the Bretton Woods system, and the subsequent floating rate period.

Part II is the core of the book in which models of exchange rate behavior are discussed in detail. Chapter 4, "Exchange Rates and National Price Levels," provides an overview of the purchasing power parity hypothesis, arguments against the hypothesis, and relevant empirical evidence. It concludes with some interesting observations on normative applications of Purchasing Power Parity. Chapter 5, "Exchange Rates and Interest Rates," provides a fairly standard discussion of covered and uncovered interest parity, including a short, partial overview of empirical results from survey data.

In Chapter 6, "Exchange Rates and the Balance of Payments," the author first presents the traditional elasticities approach to the balance of payments and continues with the familiar Mundell-Fleming framework to analyze stabilization policy in an open economy. In the latter part of the chapter the monetary and portfolio balance approaches to the balance of payments are outlined. Chapter 7, "News, Revisions in Expectations, and Exchange Rate Dynamics," gives a concise but precise overview of the Dornbusch "over-shooting" model before turning the "news" approach to exchange rate determination. The latter approach receives limited attention. The chapter closes with a brief, non-technical discussion of Krugman's target zone model and related empirical evidence. Chapter 8 is entitled "Empirical Estimates of Structural Exchange Rate Models." Here the author discusses in-sample estimates of monetary models (of both the flexible-price and sticky-price varieties) and portfolio balance models of the exchange rate. Then, attention is paid to the Meese and Rogoff out-of-sample results and related studies. The chapter closes with a brief discussion of the (de)merits of large-scale macroeconometric models.

The most interesting parts of the book, to my taste, are Chapters 9 and 10, which conclude Part II. Chapter 9, "New Perspectives from Optimizing Models of Realignments Under Fixed Exchange Rates," discusses recent approaches to modeling macroeconomic behavior under fixed exchange rates. Here, the timing and magnitude of exchange rate realignments are treated as solutions to explicit policy optimization problems. Speculative attacks and realignment expectations play an important role in this chapter. The author provides an interesting example, borrowed from one of his own recent articles, of the conceptual framework. The example is analyzed in detail and policy implications are explored. Chapter 10 is called "New Directions for Conceptual Models of Flexible Exchange Rates" and focuses on information. Two types of models are distinguished: (1) models with rational expectations and complete information and (2) models with irrationality or limited information. In the context of the former type, the author focuses mainly on real intertemporal equilibrium models. He concludes the chapter with an interesting and balanced discussion of the usefulness of models with rational expectations and complete information.

Part III addresses exchange rate policies. It is organized in two chapters. Chapter 11, "The Choice of Exchange Rate Arrangements," gives a broad overview of arguments that are relevant to the issue of optimum currency areas. Subsequently, the evolution of European exchange rate arrangements is outlined. The latter part of the chapter offers a good discussion of the merits of hybrid exchange rate arrangements (flexible, but managed, or fixed, but adjustable, systems). Chapter 12 is on "Policy-oriented Perspectives on Exchange Rate Stability" and dis-
discusses a number of recent policy issues: capital controls, the capital inflows problem and international policy cooperation. The discussion is informed and interesting. The book closes with the observation that

the prospects for achieving greater stability of key currency exchange rates in the years ahead cannot be much enhanced by changing the nature of exchange rate arrangements per se. Such prospects, rather depend largely on improving the quality of national macroeconomic policies and international policy cooperation, which in turn depends both on increasing the effectiveness of policy analysis and on overcoming political impediments to the timely adoption of appropriate policies. (pp. 235–36)

Peter Isard has written an interesting and useful book. I particularly admired his presentation of new approaches to exchange rate modeling.

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The Treaty on European Union of 1993, also known as the Maastricht Treaty, will be remembered as having set precise criteria and deadlines for the creation of economic and monetary union (EMU). While at the time of writing we do not know the exact shape of EMU, there is much less doubt about its very existence. It is a bold experiment for it attempts the creation of a large monetary union before political unification, a rare historical fact. Peter Kenen’s monograph is a penetrating account of EMU’s antecedents, possible configurations, and implications. Not only is it a welcome monograph for specialists in monetary integration, but it also has pedagogical merit for upper undergraduate and master’s level classes in economics and political science.

There are eight chapters in the volume. Chapter 1 reviews the essential antecedents of EMU, starting with the Werner Report of 1970 and ending with the Delors Report of 1989. While the underlying economic and political premises differ significantly, both reports envision a three-stage approach to EMU, complete capital integration and irrevocable locking of Community exchange rates. The Delors Report found its way, almost entirely, into the Maastricht Treaty. Chapter 2 describes the design of EMU. What emerged in the Maastricht Treaty reflects German preferences: economic convergence as a precondition for monetary union, commitment to price stability, and independence of the future European Central Bank (ECB). Germany, after all, with the lowest inflation rate and the most independent central bank in the Community, had more to lose from EMU than other member countries. Despite the seemingly ironclad commitment to price stability, the Treaty leaves the door open for the politicians to determine exchange-rate agreements with outside countries and, thus, create a potential conflict with price stability. Kenen reckons that this conflict is of minor concern. Yet, the French insist on its importance in order to create a political counterweight to the independence of the European Central Bank.

Chapter 3 is the most innovative essay of the book: it deals with possible configurations of EMU in the third and final stage. There, three different models of open-market operations are analyzed: (i) a centralized system where all bids are placed at the ECB; (ii) a distributive approach in which the ECB sets the size and terms of the operation and the national central banks (NCBs) would conduct their tenders based on their quotas; (iii) a decentralized approach with NCBs conducting their own tenders but constrained by a range determined by the ECB. The decentralized model would create unnecessary noise. Each NCB may set different terms for the tender, encouraging arbitrage activity to eliminate interest rate differentials. So the choice falls between either of the first two options. But, as Kenen argues correctly, the centralized model would not receive much sympathy from the national governors in the Governing Council of the ECB.

Chapter 4 deals with fiscal policy in a monetary union. The latter implies that EMU countries can no longer rely on independent monetary policies. Hence, the case for na-