OPTIMAL MONETARY POLICY UNDER DOLLAR PRICING

BY EGOROV AND MUKHIN

Ricardo Reis

LSE

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Dollar currency pricing

Figure 3: Dollar Dominance in World Trade: By Country

Gopinath, 2015
Positive results

Intermediate imports + dollar currency pricing

• Passthrough to US inflation small, passthrough to other countries’ inflation large

• Depreciation of $ increases US exports, but depreciation of other currency has little export effect.

• $ depreciation increases world trade

• TOT uncorrelated with exchange rates

• US monetary policy transmits to other countries

Here: normative, non-cooperative policy
Results: outside US

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- *Comparison to oil/copper economies: but with sticky oil.*
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• US should strive for dollar price export stabilization in efficient equilibrium. How does this square with with exorbitant privilege / insure of last resort?
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Eurozone

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- Touches on important question: endogenous currency pricing choice.
- Individual versus aggregate level, Gopinath-Itskhoki-Rigobon.
- Key assumption of model: all are small open economies.
Conclusion

• Exciting research agenda

• Paper fills obvious hole in fast-growing literature

• Many interesting results

• Comparison with “core inflation” literature

• Comparison, combination with original sin / capital flow / asset literature.

• Irrelevance of size is convenient but probably matters.