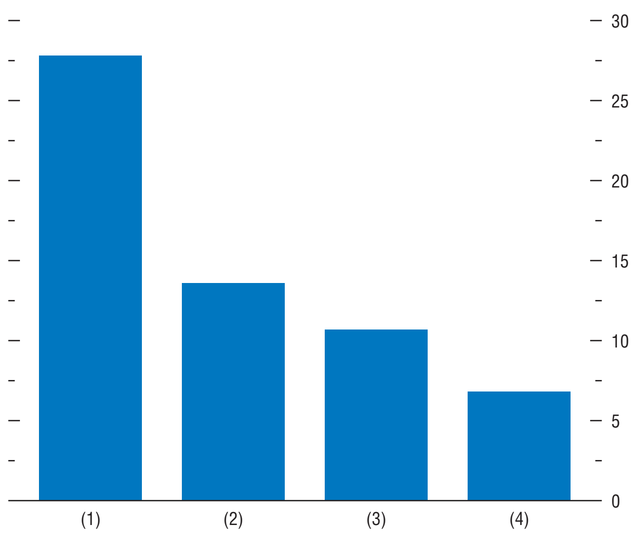
Figure 3.11. Required Exchange Rate Change for a 1 Percentage Point Reduction in the Ratio of U.S. Trade Deficit to GDP[1]

(Percent)

Correcting for aggregation and vertical integration biases increases the impact of the real effective exchange rate (REER) depreciation on the U.S. trade balance.

(1) Based on the standard empirical trade model discussed in the main text (1986–2006)
(2) Based on model (1) adjusted for vertical integration bias
(3) Based on model (1) adjusted for aggregation bias
(4) Based on model (1) adjusted for both aggregation and vertical integration biases



Source: IMF staff calculations.
[1]All scenarios are based on price elasticities with respect to REER, an import-to-export ratio of 1.56, and no growth differential with trading partners. Details of the calculations are in Appendix 3.2.