External Balances to GDP
Net Exports and Dollar

Log real dollar, lagged two years [left scale]

Net exports to GDP [right scale]

Net exports ex.-oil to GDP [right scale]
Four Questions

• Can the deficit be sustained?
• Should the deficit be maintained?
• Can the deficit be maintained, with growth?
• What are the implications of the dollar’s rise?
Why is the dollar rising?
Taylor Rules

- \( i_t^{FedFunds} = \pi_t + \beta (y_t - y_t^*) + \delta (\pi_t - \pi_t^*) + r_t^* \)

- \( i_t^{FedFunds} = (1 + \delta)\pi_t + \beta (y_t - y_t^*) + r_t^* - \delta \pi_t^* \)
Euro Exchange Rate and Interest Differentials

Log euro-dollar exchange rate [left scale]
Shadow rate differential [right scale]
How Long of an Appreciation?
Long Swings?