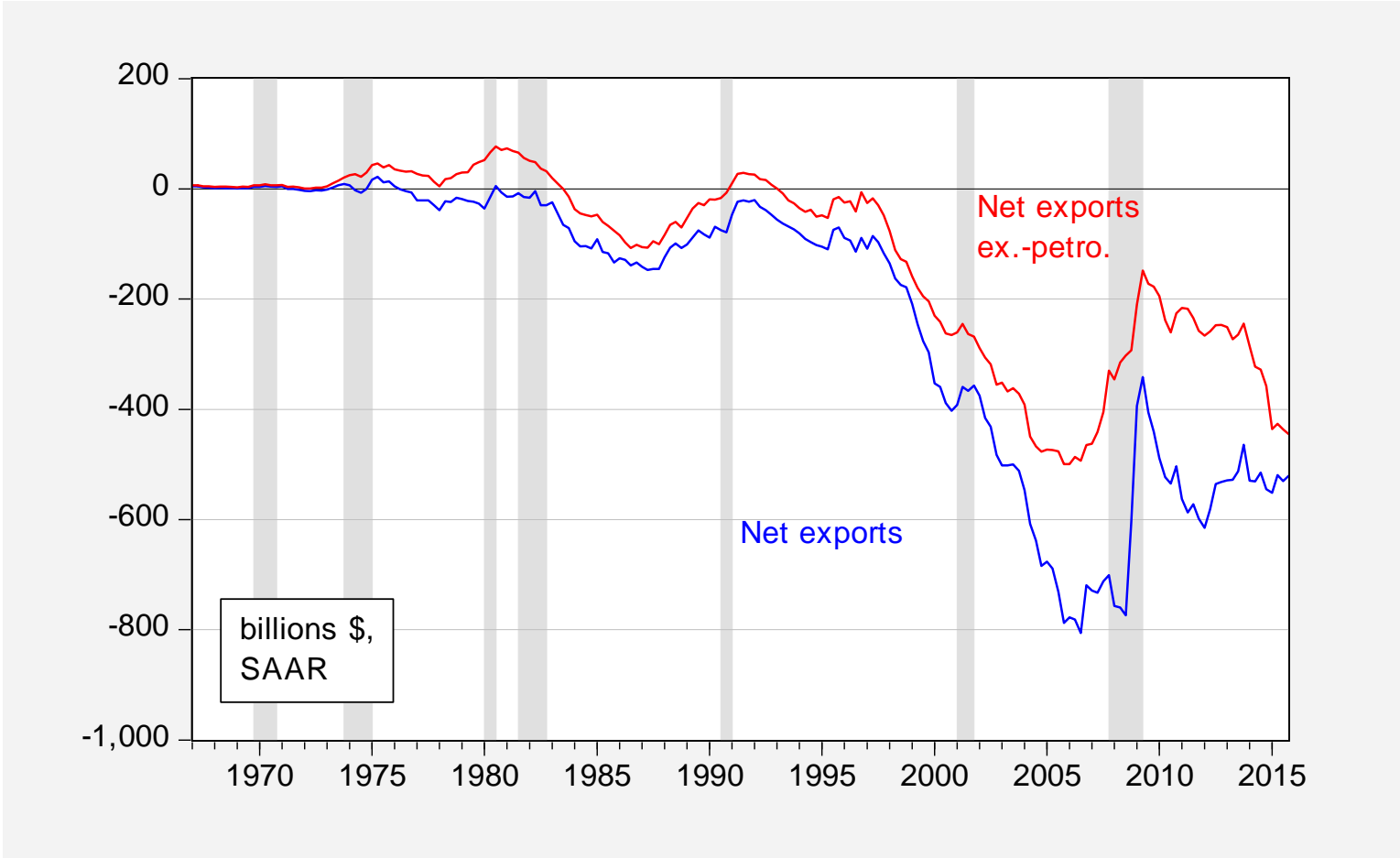


Economics 442
Macroeconomic Policy

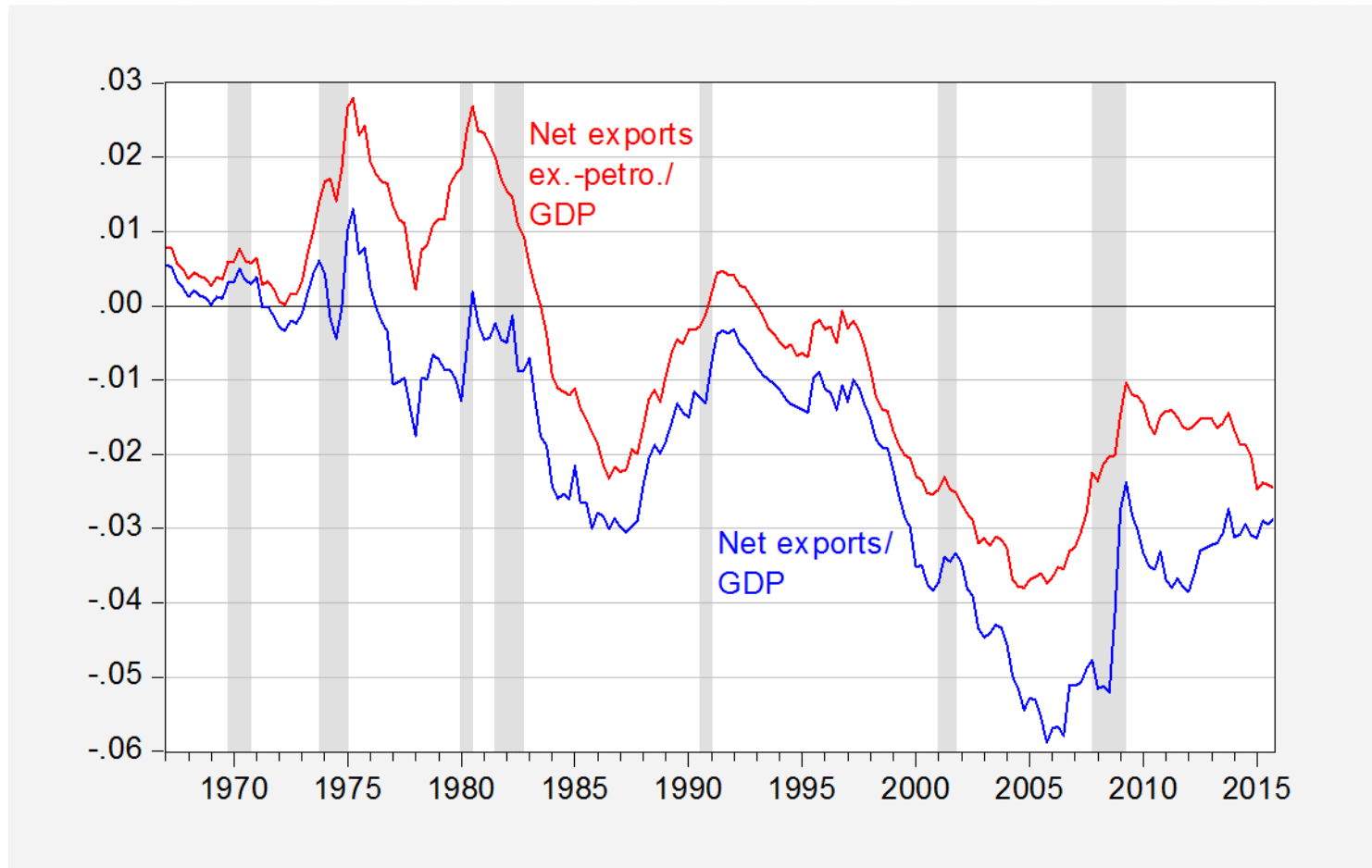
Lecture 24
4/18/2016

Instructor: Prof. Menzie Chinn
UW Madison
Spring 2016

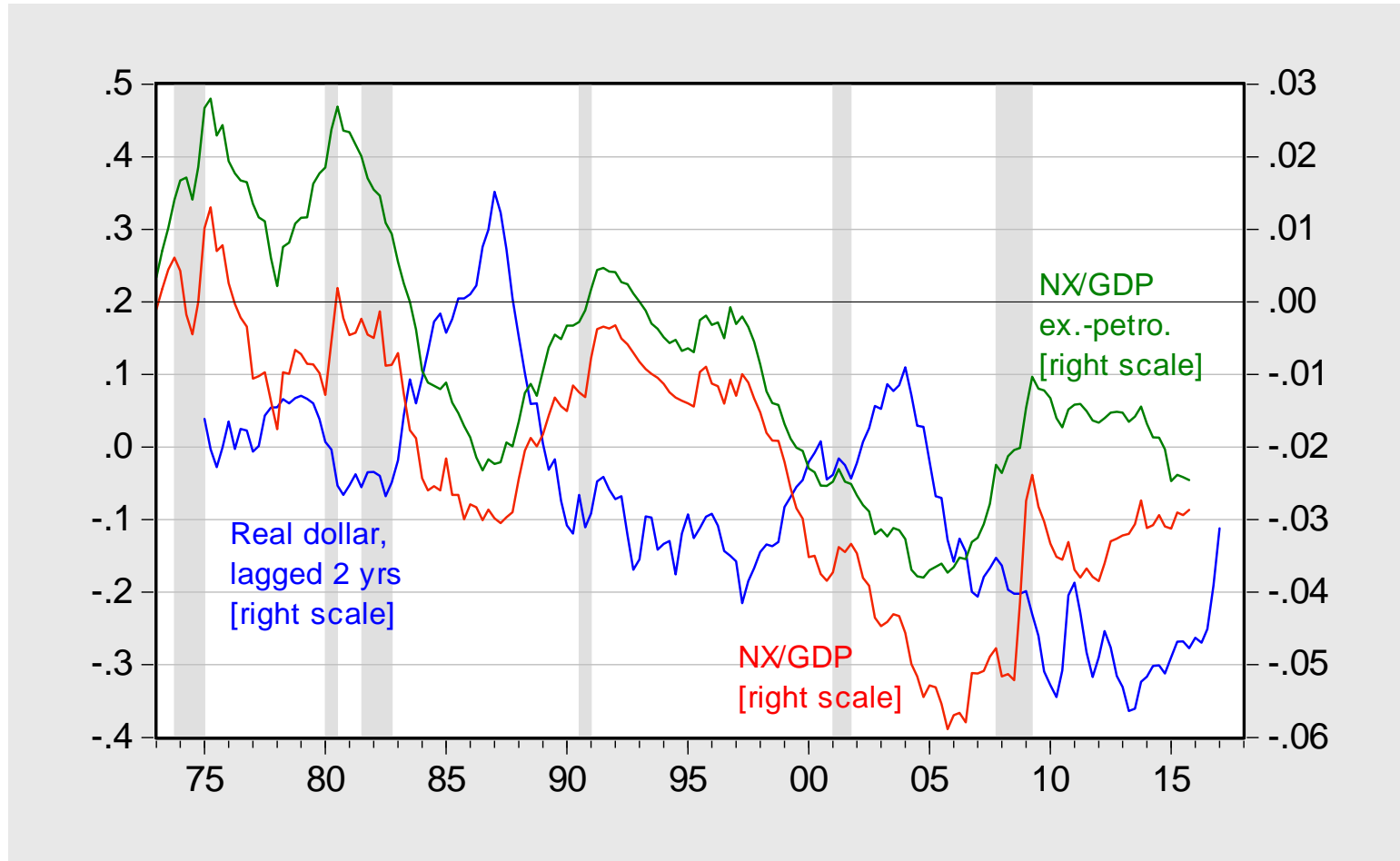
External Balances, \$



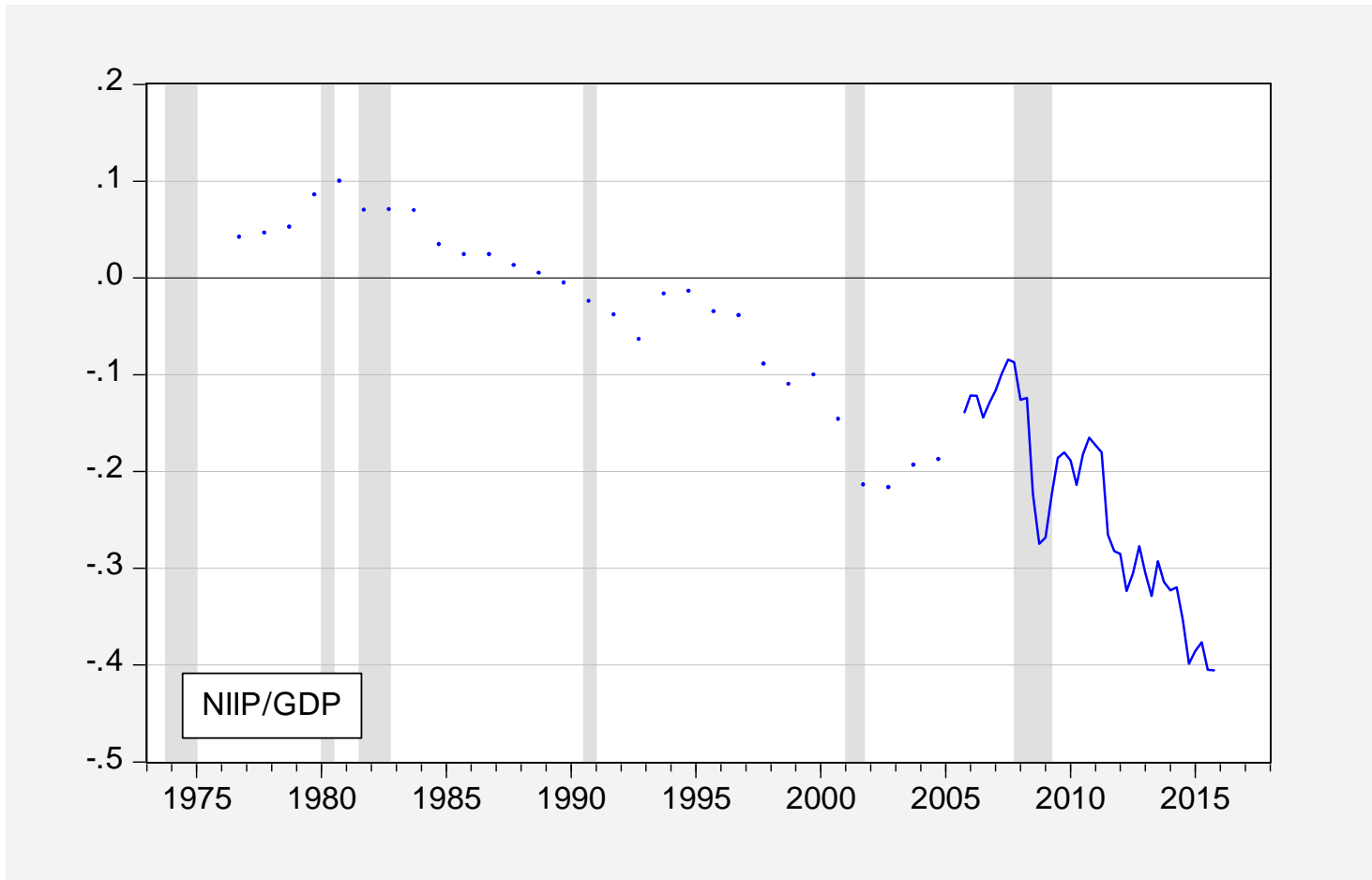
External Balances to GDP



Net Exports and Dollar



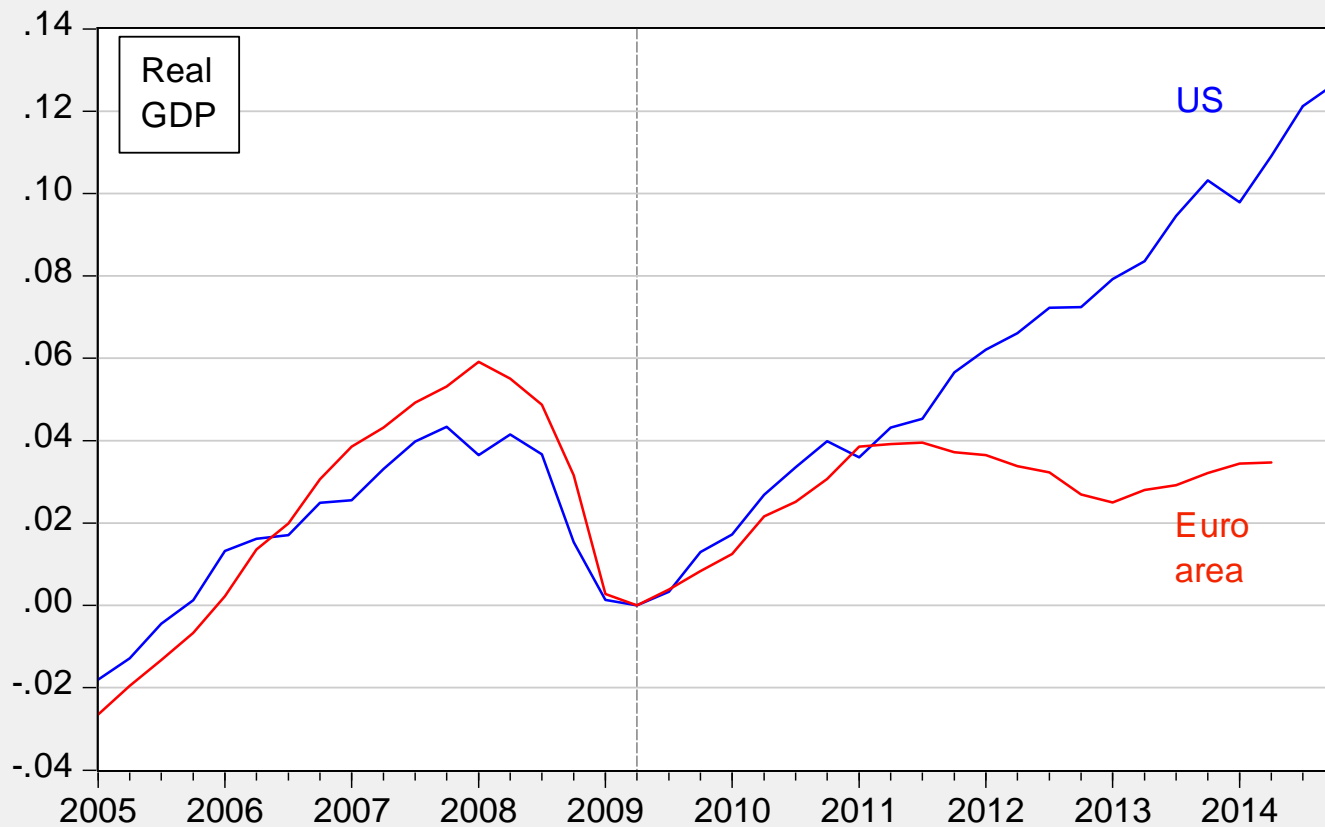
Net International Investment Position (to GDP)



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?

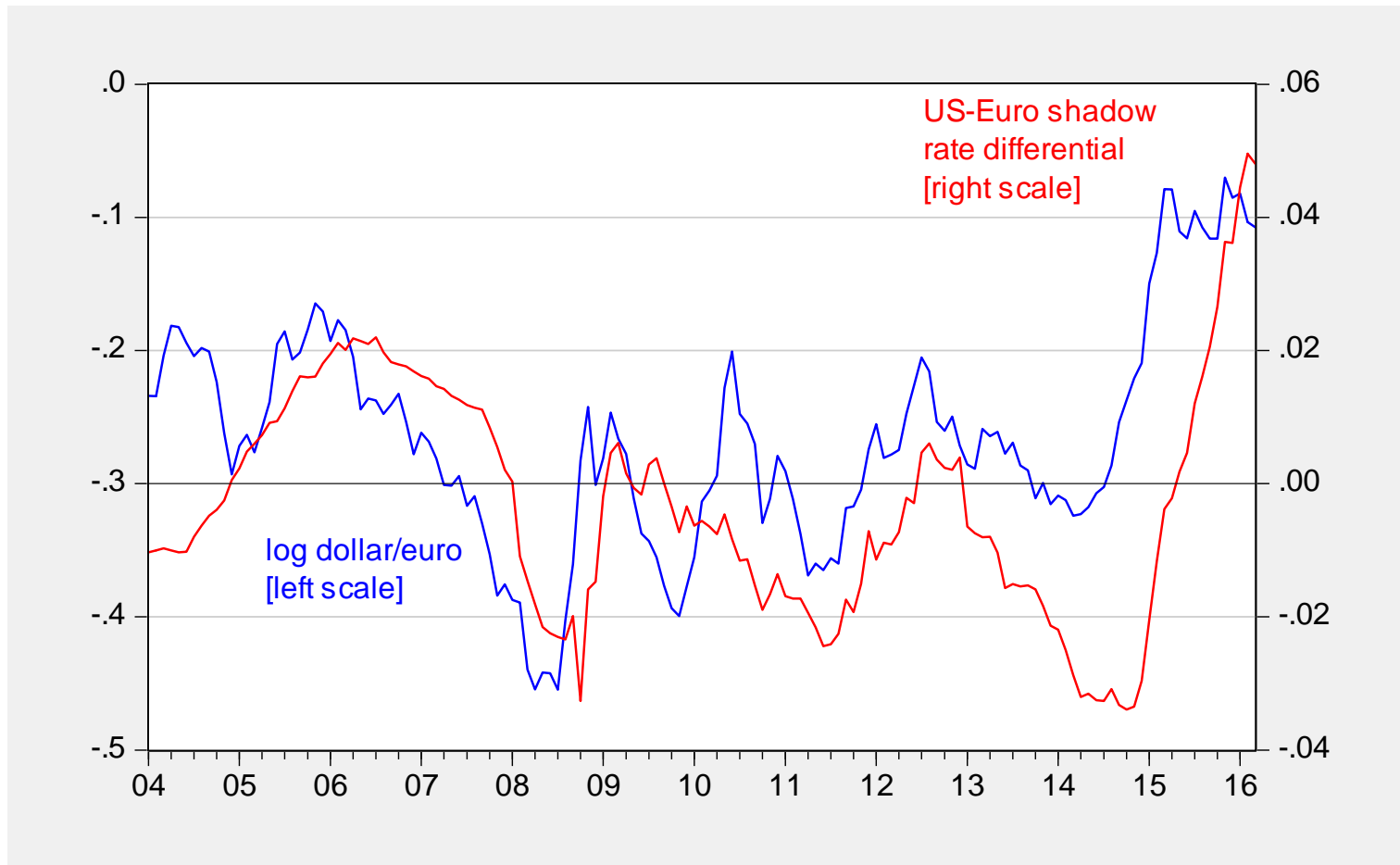
Why is the dollar rising?



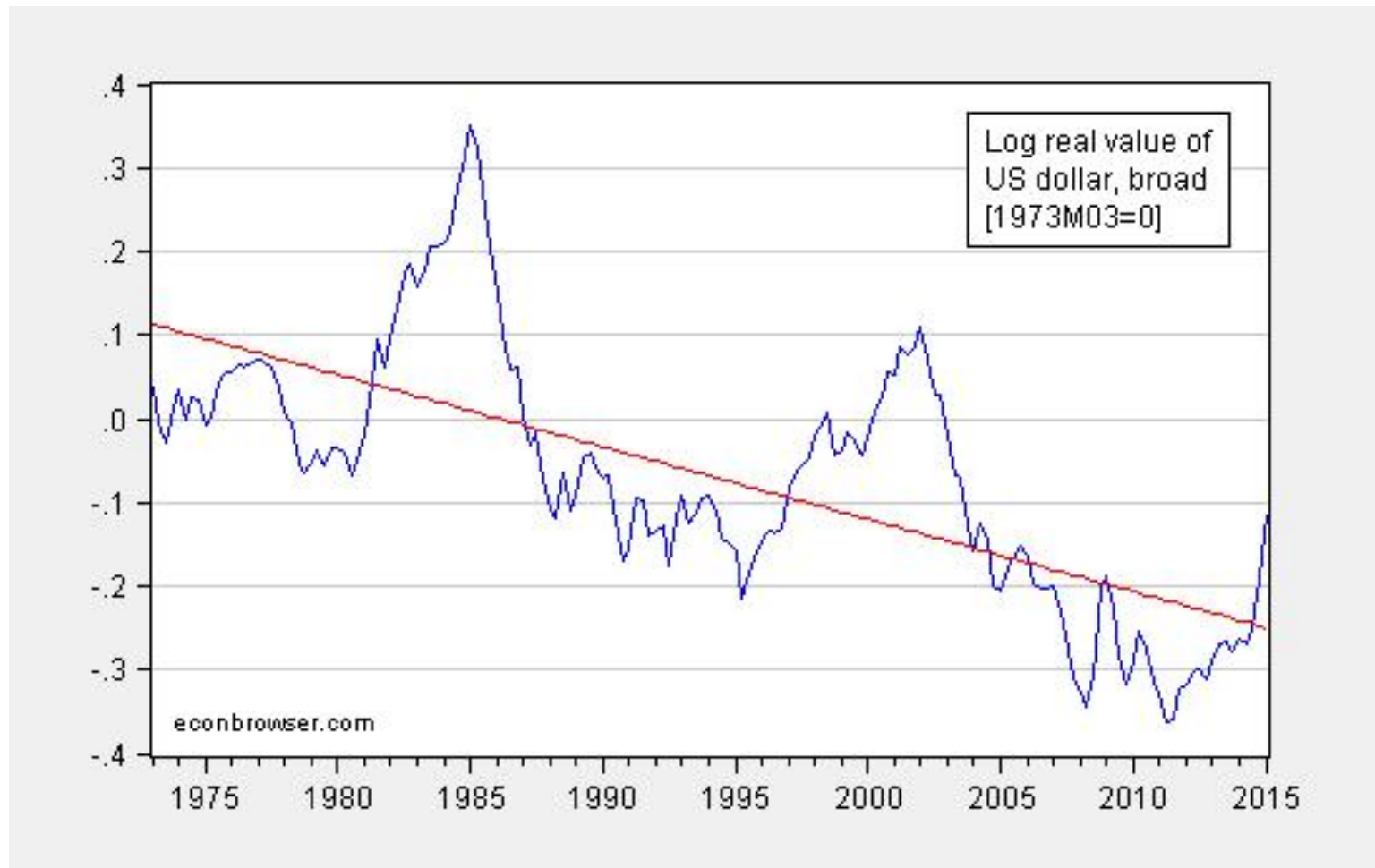
Taylor Rules

- $i_t^{FedFunds} = \pi_t + \beta(y_t - y_t^*) + \delta(\pi_t - \pi_t^*) + r_t^*$
- $i_t^{FedFunds} = (1 + \delta)\pi_t + \beta(y_t - y_t^*) + r_t^* - \delta\pi_t^*$

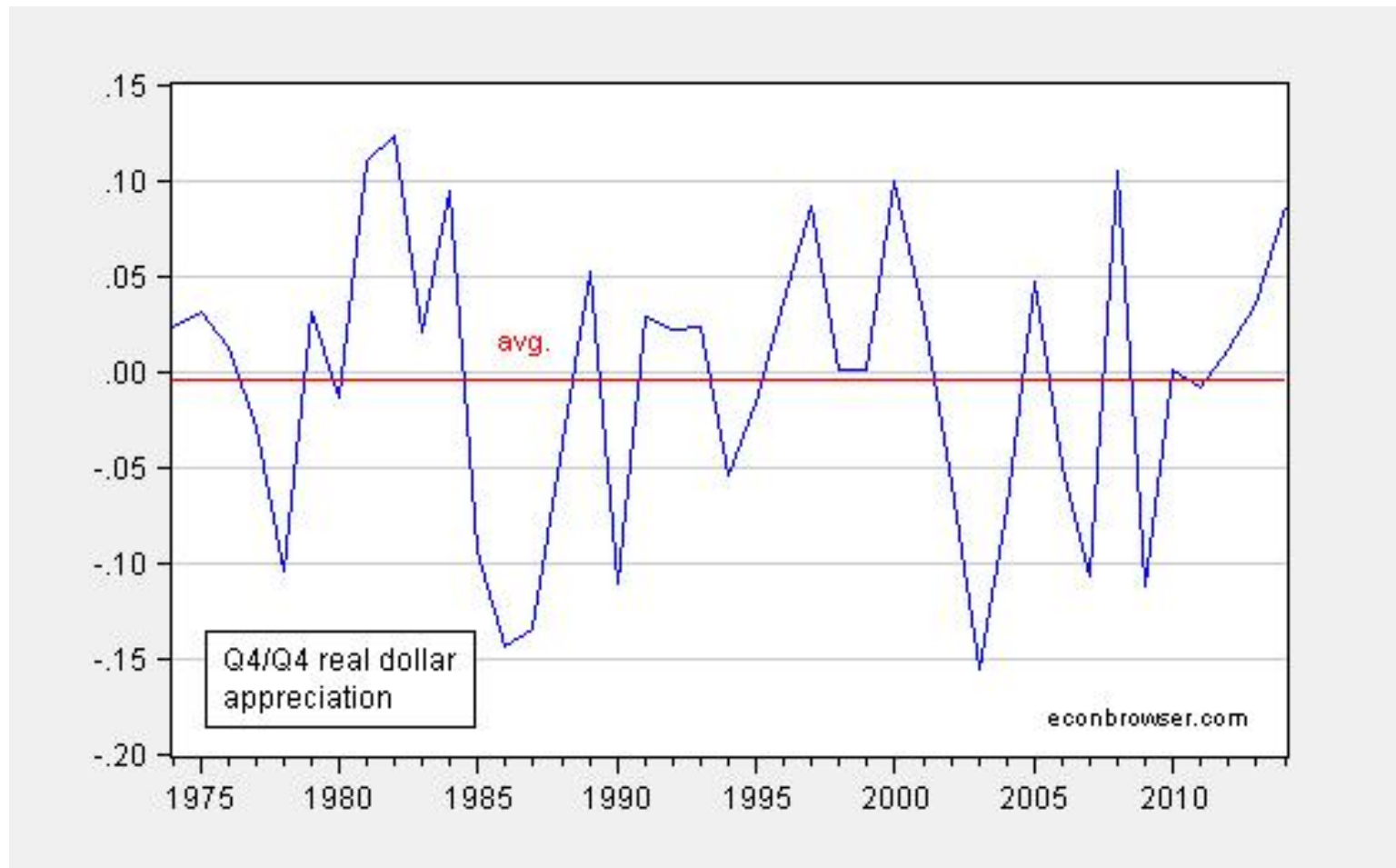
Euro Exchange Rate and Interest Differentials



How Long of an Appreciation?

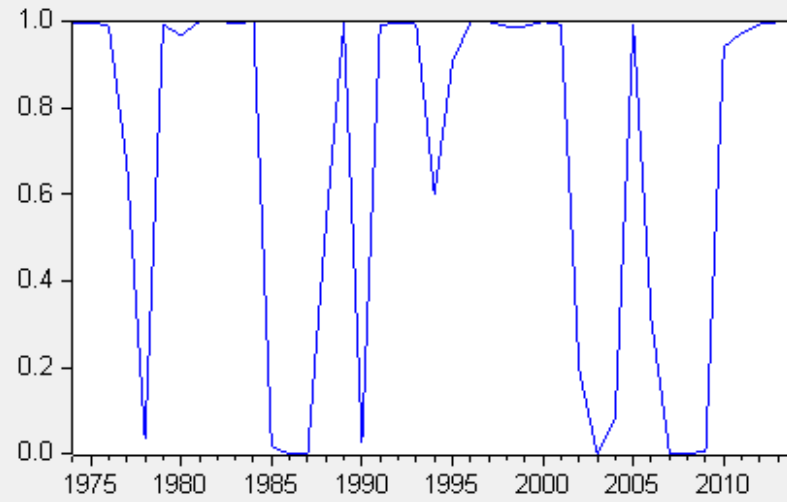


Long Swings?



Smoothed Regime Probabilities

$P(S(t)=1)$



$P(S(t)=2)$

