INTERNATIONAL FINANCE

Exchange Rates and Financial Flows in the International Financial System

Longwan Group Lindered.

SiaO Arredail. S

noisei

Yozell

Heather D. Gibson

CM20 2JE, England

and Associated Companies in employee the respile

Published in the Carter Steller of America in Language Publishing Nov. 2 och

CLondrate Green Landed 1994

Althoughts reserved, to pure of this publication may be regredated, stored in a territ callerstem, or transmitted in any form or ly any means, electronic, in connicyle therecopying, recording solutionally without other the prior written permission of the Publishers or a ficence permitting a stricted caps ing in the Larted Isingdom is each by the Capitalgia Elections Agency Ltd., 90 Poucebair Court Road, London B IP WILL

5001 burishing rent's

OSD 601310 186 0 ZH21 ISBN 6 542 215128 PPR

British Library Cataloguag, do-Publication Data

si decel sist not brown obgetting t available from the British Latinary

Fibrary of Congress Catalograpsis-Publication Data

Gibson Heather D., 1951 -

three taken

In emitional Pagners -denomination.

p. car Ird solution 36.01 20 8503

552-21812 8 (puk.) 1

1. Francia exchange eliminismonale. El Caratti monomistic

s fine regardenal brances at 17th c मध्य स्थान

527,042 1,462,0

LONGMAN

95 -72423 411.)

> LONDON AND NEW YORK Ser by 8 in 10/12 in Elithardt Produced Personal Francisco Milleria, GUD



86

87

88

90

92

112

Portfolio models of exchange rate determination Tests of portfolio models of exchange rate determination

noint in the restrict of the restriction of the res

Recent attempts at explaining txillange tale incongramen

Appendix !: Schutzans to artional experience models

Majoria yanggaya sa Phanib ay Midilinga (1 Appendi)	
Appendix 2: Derivation of key Buiter Atitler equations	
* EXCHANGERATE MAYAGIMENT, TARGET ZONES	
AND FIXED EXCEPTION CONTROL OF THE	
The case for flexible or charge rates	
The benefits of greavy exchange rate divity	
The discipline hypothesis	
Viante and uncertainty	
regenem our ogr List of figures , eds bas es romagalistia eus egnedor d	viii
The advantages of single currency List of tables Therefore is single and the advantages of tables.	x
Acknowledgements upo monograma a may panedo A	xi
Sychange rate fateri whos	25.
1. THE INTERNATIONAL FINANCIAL SYSTEM	1
Adjustment, international money and liquidity.)	1
International money, liquidity and financial flows	6
/OI/O//Info/Adjustment and international liquidity; various systems	10
Automatic mechanisms, 178 WARTHER CONTROLLING	11
The Lineagent Money Street marks (N-1)	13
Policy co-ordination and multilateral mechanisms of exchange	
rate management M. Califo Stability and California	16
Monetary union [ASE odr lo miliduz off?]	17
The systems in practice; a history of the international financial system	17
The gold standard 1000 orthogod time also of the	18
t of heinter-war period of the college control /	24
The Bretton Woods system All bus voiling linearing	27
The Smithsonian agreement and the managed float (1971-present)	39
The lessons of European monetary in Comment	47
2 PURCHASING POWER AND INTEREST PARITY RELATIONS	50
2. PURCHASING POWER AND INTEREST PARITY RELATIONS OR THE WORLD THE CONTROL OF THE PARITY RELATIONS OR THE WORLD THE PARITY RELATIONS OR THE WORLD THE PARITY RELATIONS	50
Interest rate parity	58
ythiogal lengterroing bled ylateroing and bnem ib adl'I	58
() fireally held hauder and the role of retermenal reserves with the role of the control of the	64
langularnotar beneficial and anodarestal localization of l' The forward market for foreign exchange	65
PURCHASING POWER AND INTEREST PARITY RELATIONS Purchasing power parity Purchasing power parity Interest rate parity Purchasing power parity Purchasing	79
l be narare and growth of internacional markets Conclusion	80
Theories of the growth of international imancial markers	~~
3. EXCHANGE RATE DETERMINATION	85
f on church	

Asset market approaches to exchange rate determination

Empirical tests of the monetarist model

Sticky price monetary (overshooting) models [1]

Tolker Empirical tests of the overshooting model boxall

The monetary approach

MOUTANING Releasible price monetary model OUTANATINE

	Portfolio models of exchange rate determination	114
	Tests of portfolio models of exchange rate determination	125
	'News' approach to testing models of exchange rate determination	127
	Recent attempts at explaining exchange rate misalignment	131
	Appendix 1: Solutions to rational expectations models	135
	Appendix 2: Derivation of key Buiter-Miller equations	139
4	EVOLUNICE DATE MANACEMENT TARGET ZONICO	
4.	EXCHANGE RATE MANAGEMENT, TARGET ZONES	144
	AND FIXED EXCHANGE RATES	144
	The case for flexible exchange rates	145
	The benefits of greater exchange rate fixity	151
	The discipline hypothesis	151
	Volatility and uncertainty	156
	Exchange rate misalignments and the case for exchange rate management	157
	The advantages of a single currency	160
	Exchange rate management: operation and problems	162
	Exchange rate target zones	162
	Speculative attacks	167
	Conclusion	171
5.	MONETARY INTEGRATION IN THE EUROPEAN UNION	
	WITH EUCLID TSAKALOTOS	175
	The European Monetary System (EMS)	176
	The features of the EMS	176
	The achievements of the ERM	178
	The stability of the ERM	185
	Economic and Monetary Union	192
	The costs and benefits of EMU	193
	Monetary policy at the European level and the ECB	196
	Fiscal policy and EMU	198
	The transition to EMU	205
	The lessons of European monetary integration	207
6.	INTERNATIONAL LIQUIDITY AND THE GROWTH OF	
	INTERNATIONAL FINANCIAL MARKETS	212
	The demand for privately held international liquidity	213
	Officially held liquidity and the role of international reserves	214
	The growth of international financial markets and international	
	financial flows	217
	The nature and growth of international financial markets	218
	Theories of the growth of international financial markets	224
	The Eurodollar market	227
	Conclusion	231
7.	INTERNATIONAL FINANCIAL MARKETS, INFLATION	
	AND INTERDEPENDENCE	234
	The Eurocurrency markets and inflation	234
	Fixed coefficient or multiplier models of credit creation	235

w	п

345

	Tobin's 'new' view of money and the Euromarkets'	240
	ability to create credit	240
	Gross liquidity creation versus net liquidity creation in the Euromarkets Transmission effects of international financial markets	246
	Financial integration and the interest rate parity condition	247
	The influence of the Eurocurrency markets	248
	· ·	250
	A case study of the relationship between the US and the UK Conclusions: The implications of increased financial integration	230
	and interdependence	255
	and interdependence	233
	INTERNATIONAL BANK LENDING: A THEORETICAL	
	FRAMEWORK	259
	The efficient market view of bank lending	260
	Market failures and the behaviour of international banks	263
	The risks involved in international banking and the need for information	264
	The implications of imperfect information for bank lending	267
	The potential for crisis	269
	The Minsky-Kindleberger approach to financial crisis	272
	Rational speculative bubbles and financial crises	273
	Financial crises as a failure to optimise	274
	Conclusion	281
9.	THE INTERNATIONAL DEBT CRISIS	285
	Characteristics of the debt build-up	286
	The underlying causes of the debt build-up	290
	Financial flows in the international financial system	290
	The international banking system	293
	The role of the debtors	302
	Exogenous shocks to the world economy	304
	The management of the debt crisis	307
	Implications of the debt crisis for the international financial system	311
10.	THE IMF AND THE PROVISION OF FINANCE	317
	The role of the IMF	318
	The content of IMF stabilisation programmes	321
	The rationale for IMF programmes	323
	A critique of the IMF approach	326
	The rationale for conditionality of any kind	327
	The total volume of resources available and the balance	
	between high and low conditionality	328
	The burden of adjustment	328
	The objectives of the IMF	329
	The hypothesised cause of balance of payments problems	330
	The content of stabilisation programmes	331
	The effects of stabilisation programmes	334
	Conclusion	337
11.	CONCLUSIONS	341

Index