Exchange Rate Targeting in a Small Open Economy

Borradores de Economia
Número:
367
Publicado:
Miércoles, 1 Febrero 2006
Clasificación JEL:
E52, F41
Palabras clave:
Flexible inflation targeting, Exchange Rates, Fear of floating
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The paper develops a New Keynesian Small Open Economy Model characterized by external habit formation and Calvo price setting with dynamic inflation updating. The model is used to analyze the effect of nominal ex-change rate targeting on optimal policy an