

"The Macroeconomic Consequences of Exchange Rate Depreciations"

(joint work with Emi Nakamura and John Steinsson)

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Abstract:

We study the consequences of exchange rate depreciation by comparing outcomes for peggers vs. floaters to the U.S. dollar in response to dollar depreciation. We estimate that such depreciations are strongly expansionary for peggers: GDP, consumption, and investment rise substantially. We interpret this evidence through the lens of a multi-country heterogeneous-agents New Keynesian model. We conclude that the expansion is driven by a strongly positive real income channel, while the expenditure switching channel is weak.