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Autor o Editor

Javier Gómez

Capital inflows and outflows often remind policymakers of the monetary policy trilemma and the several associated dilemmas. To tackle these dilemmas, an equilibrium model of capital flows is proposed. The model captures bouts of capital inflows and outflows with shocks to the emerging-market country risk premium. From the equilibrium conditions of the model, an expression for the accounting of net foreign assets is derived. This expression helps study the evolution of foreign debt, during capital inflows and outflows, under fixed and floating exchange rates. A policy experiment is conducted for the case of a capital outflow. It shows that during a capital outflow an interest rate defense of the exchange rate can deliver a recession even in financially resilient economies. This is one possible explanation of the puzzle in Chari, Kehoe and McGrattan [AER Vol. 25 No. 2, 2005]

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