

Seminario 495. The new macroeconomic quadrilemma: Mundell's trilemma in the era of financial instability

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Hora: 12:00 m. (refrigerio) y 12:30 p. m. (inicio del seminario)

Tiempo de exposición: 12:30 p. m. a 2:00 p. m.

Lugar: Banco de la República, carrera 7 # 14-78, piso 13 (Sala de prensa), Bogotá D.C.

Idioma de la exposición: Inglés

Abstract: *Framing the Trilemma as a binary choice of “corner options” fitted well the Bretton Woods (BW) 1945-1970 regime at times of limited financial openness and controlled financial stability. Yet, the original Trilemma does not fit well the post BW world as growing number of countries prefer “in-between” regimes. Following crises, financial stability has been added to the original Trilemma policies [financial integration, monetary independence, and exchange rate stability], and the Trilemma morphed into Quadrilemma. We outline an extension of the Trilemma into the post BW system and test and overall validated a version the “Modern Quadrilemma”. In line with Tinbergen’s result, the added policy tools needed to control financial instability include swap lines (mostly for OECD countries), buffers like International Reserves and Sovereign Wealth Funds (mostly for Emerging Market Economics, EME), and Macro prudential regulation. Notwithstanding Rey’s “Dilemma, not Trilemma” argument, the extended Trilemma remains valid into the 21th century.*

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