

Special Issue: Monetary Policy Issues in Open Economies

Introduction

*Donald Coletti, Michael B. Devereux, Andrew Levin,  
Carl E. Walsh, and John C. Williams*

Is Exchange Rate Stabilization an Appropriate Cure for the Dutch Disease?

*Ruy Lama and Juan Pablo Medina*  
Discussant: *Michael B. Devereux*

Commentary: DSGE Models: I Smell a Rat (and It Smells Good)

*Jon Faust*

Reserve Requirements for Price and Financial Stability:  
When Are They Effective?

*Christian Glocker and Pascal Towbin*  
Discussant: *Carl E. Walsh*

The Federal Reserve as an Informed Foreign Exchange Trader:  
1973–1995

*Michael D. Bordo, Owen F. Humpage, and Anna J. Schwartz*  
Discussant: *Kathryn Dominguez*

Commentary: Central Banking in an Open Economy

*Robert G. King*

Food Price Pass-Through in the Euro Area: Non-Linearities and  
the Role of the Common Agricultural Policy

*Gianluigi Ferrucci, Rebeca Jiménez-Rodríguez, and Luca Onorante*  
Discussant: *Tsutomu Watanabe*

Tailwinds and Headwinds: How Does Growth in the BRICs Affect  
Inflation in the G-7?

*Anna Lipińska and Stephen Millard*  
Discussant: *Paul Beaudry*

Commentary: Import Prices and Inflation

*James D. Hamilton*



**Special Issue:  
Monetary Policy Issues in Open Economies**

Introduction	1
<i>Donald Coletti, Michael B. Devereux, Andrew Levin, Carl E. Walsh, and John C. Williams</i>	
Is Exchange Rate Stabilization an Appropriate Cure for the Dutch Disease?	5
<i>Ruy Lama and Juan Pablo Medina</i>	
Discussion: <i>Michael B. Devereux</i>	47
DSGE Models: I Smell a Rat (and It Smells Good)	53
<i>Jon Faust</i>	
Reserve Requirements for Price and Financial Stability: When Are They Effective?	65
<i>Christian Glocker and Pascal Towbin</i>	
Discussion: <i>Carl E. Walsh</i>	115
The Federal Reserve as an Informed Foreign Exchange Trader: 1973–1995	127
<i>Michael D. Bordo, Owen F. Humpage, and Anna J. Schwartz</i>	
Discussion: <i>Kathryn Dominguez</i>	161
Central Banking in an Open Economy	167
<i>Robert G. King</i>	
Food Price Pass-Through in the Euro Area: Non-Linearities and the Role of the Common Agricultural Policy	179
<i>Gianluigi Ferrucci, Rebeca Jiménez-Rodríguez, and Luca Onorante</i>	
Discussion: <i>Tsutomu Watanabe</i>	219
Tailwinds and Headwinds: How Does Growth in the BRICs Affect Inflation in the G-7?	227
<i>Anna Lipińska and Stephen Millard</i>	
Discussion: <i>Paul Beaudry</i>	267
Import Prices and Inflation	271
<i>James D. Hamilton</i>	

Copyright © 2012 by the Association of the International Journal of Central Banking. All rights reserved. Brief excerpts may be reproduced or translated provided the source is cited. Consult [www.ijcb.org](http://www.ijcb.org) for further information.

The *International Journal of Central Banking* is published quarterly (ISSN: 1815-4654). Online access to the publication is available free of charge at [www.ijcb.org](http://www.ijcb.org). Individual print subscriptions are available. Orders may be placed by phone (001 415 974 2035), via fax (001 415 974 2168), or by e-mail ([editor@ijcb.org](mailto:editor@ijcb.org)).

Renewals, claims, address changes, and requests for permission to reprint material from this journal should be addressed to:

International Journal of Central Banking  
Economic Research Department  
Federal Reserve Bank of San Francisco  
101 Market Street  
San Francisco, CA 94105  
USA  
Phone: 001 415 974 2035  
Fax: 001 415 974 2168  
E-mail: [editor@ijcb.org](mailto:editor@ijcb.org)

The views expressed in this journal do not necessarily represent the views of the Association of the International Journal of Central Banking or any of its members.

ISSN: 1815-4654

# International Journal of Central Banking

## Board of Directors

### Chairman

John Murray, *Bank of Canada*

### Board Members

- Q. Farooq Akram, *Norges Bank*  
Abdulrahman Al-Hamidy, *Saudi Arabian Monetary Agency*  
David E. Altig, *Federal Reserve Bank of Atlanta*  
Carlos Hamilton Vasconcelos Araujo, *Central Bank of Brazil*  
Jan Marc Berk, *The Nederlandsche Bank*  
Claudio Borio, *Bank for International Settlements*  
Mohamed Tahar Bouhouche, *Bank of Algeria*  
Laurent Clerc, *Bank of France*  
Francisco G. Dakila Jr., *Central Bank of the Philippines*  
Spencer Dale, *Bank of England*  
Jean-Pierre Danthine, *Swiss National Bank*  
William English, *Federal Reserve Board*  
Jiang Feng, *People's Bank of China*  
Manuel Ramos Francia, *Bank of Mexico*  
Jeffrey C. Fuhrer, *Federal Reserve Bank of Boston*  
Hiroshi Fujiki, *Bank of Japan*  
Niels Lynggård Hansen, *Danmarks Nationalbank*  
Dong He, *Hong Kong Monetary Authority*  
Luis Óscar Herrera, *Central Bank of Chile*  
Heinz Herrmann, *Deutsche Bundesbank*  
Tor Jacobson, *Sveriges Riksbank*  
Juan F. Jimeno, *Bank of Spain*  
George A. Kahn, *Federal Reserve Bank of Kansas City*  
Ali Hakan Kara, *Central Bank of Turkey*  
Jun Il Kim, *Bank of Korea*  
Ana Christina Leal, *Bank of Portugal*  
Philip Lowe, *Reserve Bank of Australia*  
Choy Keen Meng, *Monetary Authority of Singapore*  
Loretta J. Mester, *Federal Reserve Bank of Philadelphia*  
John McDermott, *Reserve Bank of New Zealand*  
Maurice McGuire, *Central Bank of Ireland*  
Deepak Mohanty, *Reserve Bank of India*  
Vyacheslav Morgunov, *Central Bank of Russian Federation*  
Edward Offenbacher, *Bank of Israel*  
Fabio Panetta, *Bank of Italy*  
Thórarinn G. Pétursson, *Central Bank of Iceland*  
Cristian Popa, *National Bank of Romania*  
Ivan Ribnikar, *Bank of Slovenia*  
Harvey Rosenblum, *Federal Reserve Bank of Dallas*  
Mark Schweitzer, *Federal Reserve Bank of Cleveland*  
Frank Smets, *European Central Bank*  
Jan Smets, *National Bank of Belgium*  
Daniel Sullivan, *Federal Reserve Bank of Chicago*  
Altin Tanku, *Bank of Albania*  
Juha Tarkka, *Bank of Finland*  
George Tavlas, *Bank of Greece*  
Joseph Tracy, *Federal Reserve Bank of New York*  
Dobieslaw Tymoczko, *National Bank of Poland*  
Christopher Waller, *Federal Reserve Bank of St. Louis*  
John Weinberg, *Federal Reserve Bank of Richmond*  
Kei-Mu Yi, *Federal Reserve Bank of Minneapolis*

## Editorial Board

### Managing Editor

John C. Williams  
Federal Reserve Bank of San Francisco

### Co-editors

- |   |                                       |   |
|---|---------------------------------------|---|
| Pierpaolo Benigno<br>LUISS Guido Carli              | Douglas Gale<br>New York University   | Rafael Repullo<br>CEMFI                   |
| Giancarlo Corsetti<br>European University Institute | Harrison Hong<br>Princeton University | Carl E. Walsh<br>University of California |

### Associate Editors

- |   |  |   |
|---|--|---|
| Patrick Bolton<br>University of Columbia                                | Jordi Gali<br>Centre de Recerca en Economia Internacional (CREI) | Eli M. Remolona<br>Bank for International Settlements                                 |
| Michael D. Bordo<br>Rutgers University                                  | Marvin Goodfriend<br>Carnegie Mellon University                  | Hélène Rey<br>London Business School  |
| Mark Carey<br>Federal Reserve Board                                     | Michael B. Gordy<br>Federal Reserve Board                        | Jean-Charles Rochet<br>University of Toulouse   |
| Pierre Collin-Dufresne<br>University of Columbia                        | Luigi Guiso<br>European University Institute                     | Andrew K. Rose<br>University of California, Berkeley                                  |
| Guy Debelle<br>Reserve Bank of Australia                                | Andrew G. Haldane<br>Bank of England                             | Klaus Schmidt-Hebbel<br>Organisation for Economic Co-operation and Development (OECD) |
| Michael B. Devereux<br>University of British Columbia                   | Takatoshi Ito<br>University of Tokyo                             | Lars E.O. Svensson<br>Sveriges Riksbank   |
| Douglas W. Diamond<br>University of Chicago Graduate School of Business | David Lando<br>Copenhagen Business School                        | Jürgen von Hagen<br>University of Bonn  |
| Francis Diebold<br>University of Pennsylvania                           | Philip Lane<br>Trinity College Dublin                            | Ernst-Ludwig von Thadden<br>University of Mannheim                                    |
| Michael Dotsey<br>Federal Reserve Bank of Philadelphia                  | Francesco Lippi<br>University of Sassari                         | Tsutomu Watanabe<br>University of Tokyo   |
| Darrell Duffie<br>Stanford University                                   | Carmen M. Reinhart<br>University of Maryland                     |   |

## Advisory Board

- |  |                                   |   |
|--|-----------------------------------|---|
| Franklin Allen<br>The Wharton School of the University of Pennsylvania | Hyun Shin<br>Princeton University | Michael Woodford<br>Columbia University |
| Charles Goodhart<br>London School of Economics                         | Kazuo Ueda<br>University of Tokyo | John Taylor<br>Stanford University      |