EXCHANGE RATES, MONEY AND OUTPUT

The macroeconomic performance of the industrialised countries since 1970 has been anything but brilliant. Low growth of output, increasing unemployment, high and variable inflation rates and interest rates, volatile exchange rates, these are the hallmarks of the 1970s and the early 1980s.

The first part of the book analyses how inflation, oil shocks and tax policies in major European countries have affected the supply of industrial output. At the same time it develops and tests the Lucas-supply equation for open economies. The results of this analysis suggest that both the changes in the terms of trade (due to oil shocks) and tax policies have negatively affected industrial output in the EC countries.

The second part of the book studies the financial side of the EC economies. Models of the money and banking sectors of the EC countries are developed and tested. These models are used to analyse various policy issues. In particular, how effective is the official management of exchange rates in Europe? How do exchange rate and monetary policies interact? What has been the nature of the financial interdependence within the EMS? In a final chapter the uneasy economic interdependence between the USA and Europe is studied. One conclusion of this analysis is that the present exchange rate regime combines the disadvantages of both the fixed and flexible exchange rate systems, thereby exacerbating conflicts between the USA and Europe.

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The European Experience

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