OPTIMAL MONETARY POLICY UNDER DOLLAR PRICING

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Dollar currency pricing

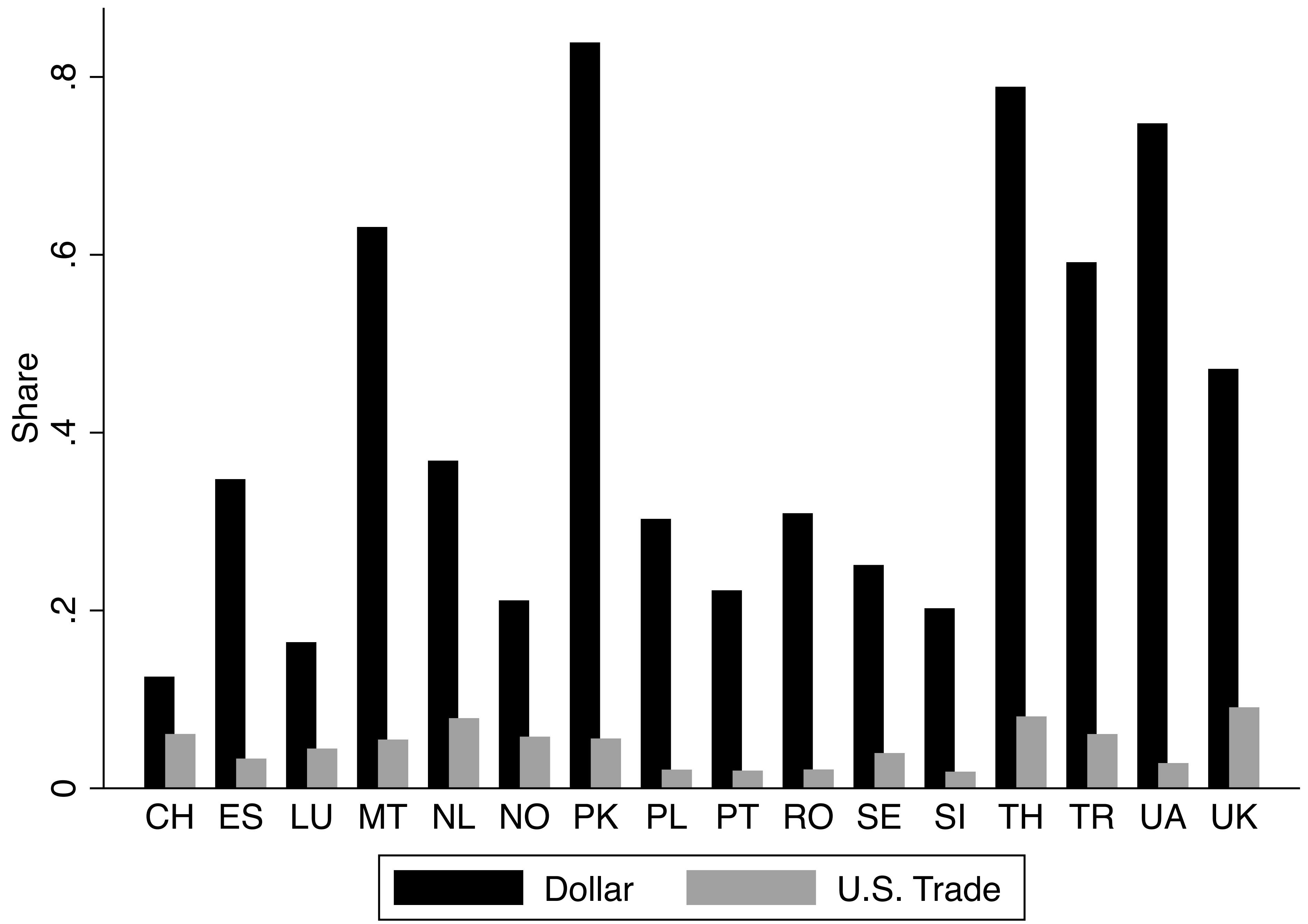

Figure 3: Dollar Dominance in World Trade: By Country

Positive results

Intermediate imports + dollar currency pricing

- Passthrough to US inflation small, passthrough to other countries' inflation large
- Depreciation of $ increases US exports, but depreciation of other currency has little export effect.
- $ depreciation increases world trade
- TOT uncorrelated with exchange rates
- US monetary policy transmits to other countries

Here: normative, non-cooperative policy

Results: outside US

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- Capital controls not useful. *No ZLB*
- *Comparison to oil/copper economies: but with sticky oil.*

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- US should strive for dollar price export stabilization in efficient equilibrium. *How does this square with with exorbitant privilege / insure of last resort?*

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- Touches on important question: endogenous currency pricing choice.

- Individual versus aggregate level, Gopinath-Itskhoki-Rigobon.

- Key assumption of model: all are small open economies.

Conclusion

- **Exciting research agenda**
- **Paper fills obvious hole in fast-growing literature**
- **Many interesting results**
- Comparison with "core inflation" literature
- Comparison, combination with original sin / capital flow / asset literature.
- Irrelevance of size is convenient but probably matters.