

Low-Frequency Movements of Exchange Rates

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Discussion by Dave Backus

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Two good questions

What **frequencies** do we care about in business-cycle research?

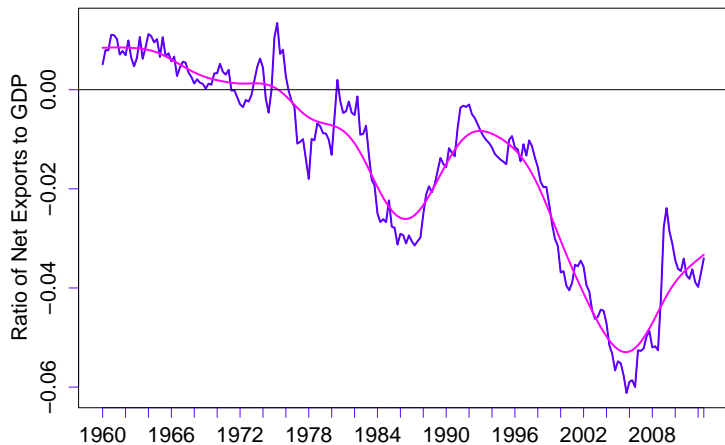
- ▶ Traditional answer: Hodrick-Prescott filter
- ▶ Their answer: in principle, all of them

Where do **real exchange rates** come from?

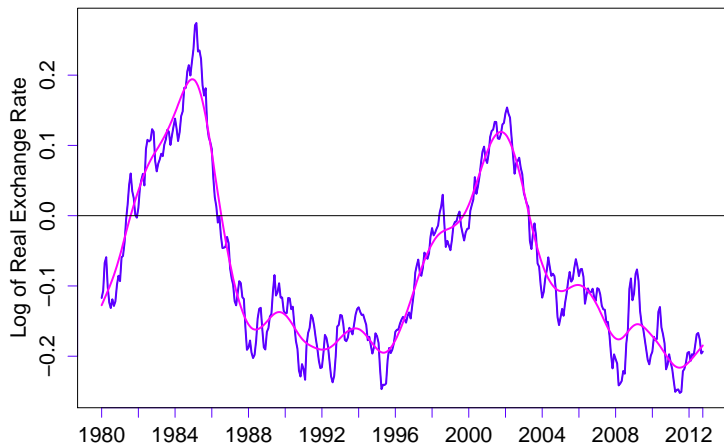
- ▶ Traditional answer: who knows, maybe something nominal?
- ▶ Their answer: persistent differences in productivity

Frequencies

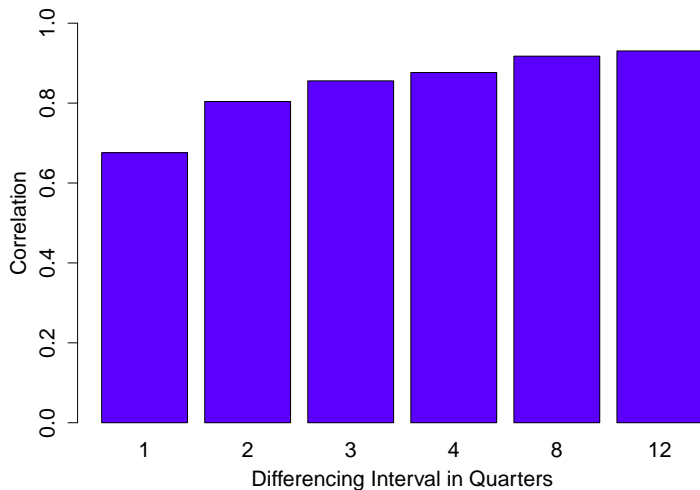
Net exports (a traumatic memory)



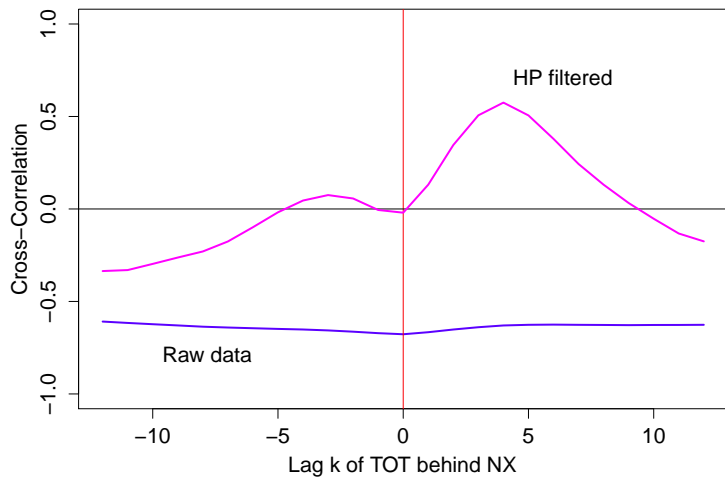
Real exchange rate



Cross-correlations of GDP and consumption growth



Cross-correlation functions



Real Exchange Rates

Where do real exchange rates come from?

What we (think we) know

- ▶ Real and nominal roughly the same
- ▶ Uncorrelated with pretty much everything
- ▶ More variable in floating regimes (nominal trigger?)

Rabanal & Rubio-Ramirez

- ▶ Persistent differences in productivity
- ▶ Variation in Pareto weights via incomplete markets

Things to think about

- ▶ Comovements? with what?
- ▶ Quantitative significance of incomplete markets?
- ▶ Similar to recursive preferences? other mechanisms?

Last thoughts

Two good ideas

- ▶ Look at fluctuations by frequency
- ▶ Explore sources of real exchange rate movements

Open questions

- ▶ Comovements: which ones? can we reproduce them?
- ▶ Pareto weights: how important? comparison with other mechanisms?