

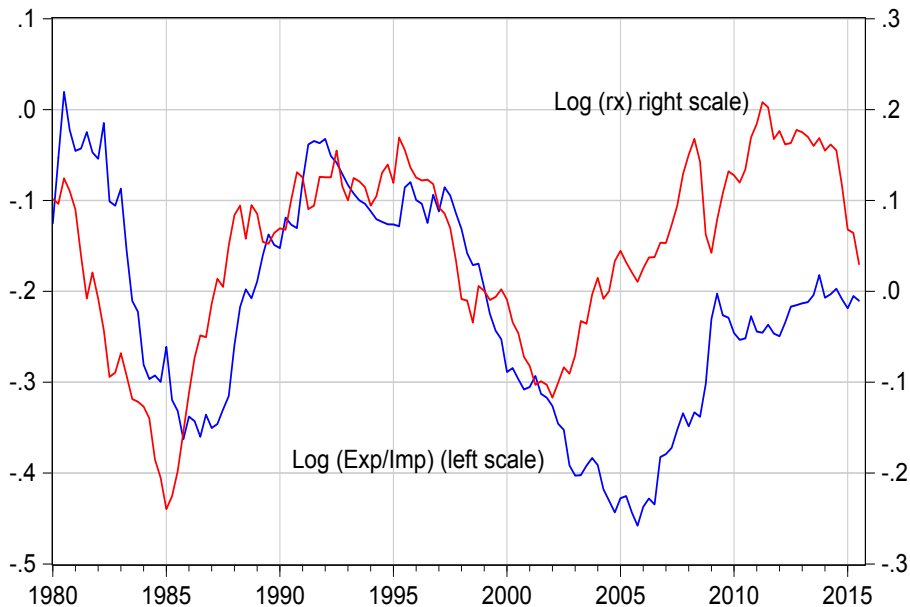
The Dynamics of the Trade Balance and the Real Exchange Rate: The J curve and Trade Costs

by G. Alessandria and H. Choi

Discussion by: Fabrizio Perri
Minneapolis Fed

NBER Macro across and within borders, Minneapolis Fed December
2015

The Data



Remarks

- Can a standard IRBC model (2 good BKK) explain this?
- At a very basic level: No!

Remarks

- Can a standard IRBC model (2 good BKK) explain this?
- At a very basic level: No!
- Can easily come up with productivity series to match fluctuations in the trade balance..
- .. but same mechanism that generates trade deficit (higher output), also induces exchange rate depreciation (opposite to data)
- Paper points to an important puzzle!

Remarks

- Can a standard IRBC model (2 good BKK) explain this?
- At a very basic level: No!
- Can easily come up with productivity series to match fluctuations in the trade balance..
- .. but same mechanism that generates trade deficit (higher output), also induces exchange rate depreciation (opposite to data)
- Paper points to an important puzzle!
- Solution: Trade shocks? maybe. But asymmetric trade shocks not very satisfactory
- Solution: Shocks that drive exchange rate (financial shocks, monetary shocks), and careful way of connecting e the real economy (so to capture lag response), would be my preferred way