



# International Monetary Relations: Taking Finance Seriously

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JOURNAL OF ECONOMIC PERSPECTIVES

VOL. 31, NO. 3, SUMMER 2017

(pp. 3-28)

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Article Information

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## Abstract

In this essay, we highlight the interactions of the international monetary system with financial conditions, not just with the output, inflation, and balance of payments goals usually discussed. We review how financial conditions and outright financial crises have posed difficulties for each of the main international monetary systems in the last 150 years or so: the gold standard, the interwar period, the Bretton Woods system, and the current system of floating exchange rates. We argue that even as the world economy has evolved and sentiments have shifted among widely different policy regimes, there remain three fundamental challenges for any international monetary and financial system: How should exchange rates between national currencies be determined? How can countries with balance of payments deficits reduce these without sharply contracting their economies and with minimal risk of possible negative spillovers abroad? How can the international system ensure that countries

have access to an adequate supply of international liquidity—financial resources

able to foreigners in all circumstances? In concluding, we evaluate

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Obstfeld, Maurice, and Alan M. Taylor. 2017. "International Monetary Relations: Taking Finance Seriously." *Journal of Economic Perspectives*, 31 (3): 3-28.

DOI: 10.1257/jep.31.3.3

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