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East Asia's Growing Global Influence and Challenges in Finance and Trade

Inertia of the US Dollar as a Key Currency Through the Two Crises

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ABSTRACT

This arti… the euro zone cris… ey-in-the- utility m… cient on real balance … pirical result is … d when financial … ortage decre… crisis.

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Notes

1. The FRB concluded new currency swap arrangements with the European Central Bank (ECB) and the Swiss National Bank on 12th December 2007. Afterwards, it increased amount of currency swap arrangements and concluded them with other central banks.

2. Ogawa and Sasaki (1998) used the similar theoretical model to conduct an empirical analysis on the USD as a key currency.

3. Calvo (Calvo 1981, 1985), Obstfeld (1981), Blanchard and Fischer (1989).

4. The liquidity cost is an enactment cost in the Baumol (1952) - Tobin (1956) type of transaction demand for money model.

5. The illiquidity cost is a penalty cost of cash shortage in a precautionary demand for money model according to Whalen (Wharlen 1966).

6. See Appendix for derivation of Equations (8a) and (8b).

7. We may use a method of Fama and Gibbons (1984) to estimate expected inflation rates. A sample period is much shorter than that by using the ARIMA model due to data constraints if we use the method. For the reason, we choose to use the ARIMA model.

8. See Feenstra, Inklaar, and Timmer (2013) for reference.

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