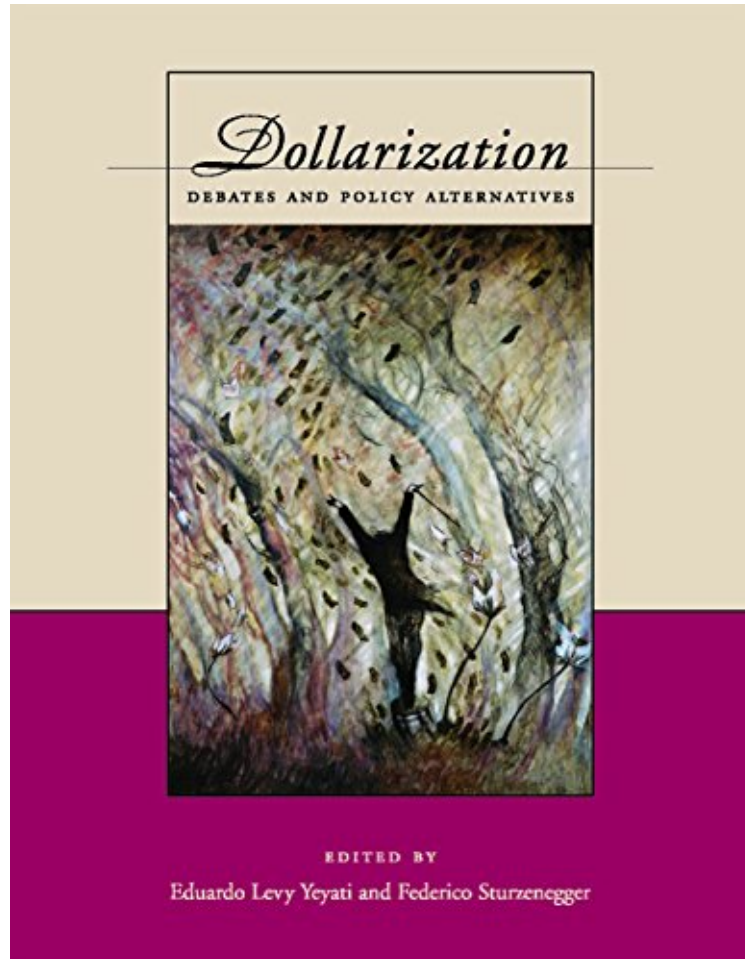


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Dollarization: Debates and Policy Alternatives (MIT Press)

Eduardo Levy Yeyati, Federico Sturzenegger
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As opposed to most of the literature on the topic (de jure/formal/full dollarization Salvadorean style; NOT de facto financial dollarization that characterizes many developing countries), this volume succeeds in presenting a balanced compendium of papers that summarizes the main issues, informing the reader without trying to sell a particular option. The Primer is particularly helpful for dollarization curious policy makers and economist without an emerging market orientation. While briefing on the contents of the different chapters of the volume, it tackles a number of diverse and related topics, ranging from old-style optimum currency area criteria to modern-style developing-countries-cannot-manage-their-own-currency type of arguments (the so called monetary credibility argument), to non-economical political considerations, always avoiding easy simplifications of generalizations. For that reason, it may read as a little derivative sometimes, but a second reading and a long reference list provides a fairly comprehensive unbiased introduction that is difficult to find elsewhere. For those who want more, the chapters elaborate on particular themes discussed in the introductory primer. The language is as diverse as the authors of the papers, going from an analytical presentation of the credibility-flexibility tradeoff by Chang and Velasco to a down-to-earth step by step guide for a prospective dollarizer by Gruber and co-authors, to a descriptive account of the political aspects by Frieden. All in all, a nice introduction for the lay and an up to date reference book for the initiated. (True, papers can be downloaded, some even in the final version, from the Internet. But this happens to be the rule rather than the exception in these days. At least, MIT Press has done an unexpectedly creative job with the cover.)

With the persistent instability of international financial markets, emerging economies are exploring new ways to reduce exposure to capital flow volatility. Some analysts argue that financially open economies are best served by more flexible regimes, while others argue in favor of extreme exchange rate regimes that have a strong commitment to a fixed parity or dispense with an independent currency. The successful launch of the euro has made more realistic the prospect of replacing a national currency with a strong foreign one. Recent examples include the adoption of the US dollar by Ecuador and El Salvador. The introduction of a foreign currency as sole legal tender, termed full (de jure) dollarization, has been the center of much political and academic debate. This book provides a comprehensive analysis of the issues from both theoretical and empirical perspectives. The topics discussed include the role of balance sheet effects, the linkage between currency risk and country risk, the impact of dollarization on trade, financial integration and credibility, the implications of dollarization for the lender of last resort, and the institutional and political economy aspects of dollarization.

This is a timely volume. It collects a number of important contributions on a highly controversial issue: Should the emerging countries have a currency of their own? The papers in this collection address some very important questions, including those related to country risk, economic performance and the political economy of dollarization. It is required reading for anyone interested in monetary policy in the emerging and transition economies." (Sebastian Edwards, Professor of International Economics, University of California, Los Angeles)

Dollarization has been the subject of all too much fast and loose analysis. This book, for once, asks the hard questions. Rather than conveniently assuming that dollarization will encourage macroeconomic and structural reforms, it analyzes the circumstances under which this hoped-for scenario will obtain. It will be the standard work for scholars and officials prepared to take the question of dollarization seriously. (Barry Eichengreen, University of California)

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