

# Working Paper

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Research Department

Dynamic Responses to Policy and Exogenous Shocks in an Empirical  
Developing-Country Model with Rational Expectations\*

Prepared by Nadeem U. Haque and Peter Montiel

Authorized for Distribution by Mohsin S. Khan

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Abstract

The dynamic responses of a developing economy to a variety of policy and external shocks are studied using an empirical macroeconomic model which embodies rational expectations, perfect capital mobility, and import rationing. These features, which are relatively new in developing-country modelling, prove to be quite important in determining the model's dynamic properties. This suggests that macroeconomic management in developing countries--such as that involved in short-run stabilization--requires that such features be explicitly taken into account.

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