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# IMF Working Paper

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## Capital Mobility and the Output-Inflation Tradeoff

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**IMF Working Paper**

Research Department

**Capital Mobility and the Output-Inflation Tradeoff**

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**Abstract**

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Identifying determinants of the output-inflation tradeoff has long been a key issue in business cycle research. We provide evidence that in countries with greater restrictions on capital mobility, a given reduction in the inflation rate is associated with a smaller loss in output. This result is shown to be consistent with theoretical presumption from a version of the Mundell-Fleming model. Restrictions on capital mobility are measured using the IMF's Annual Report on Exchange Rate Arrangements and Exchange Restrictions. Estimates of the output-inflation tradeoff are taken from previous studies, viz., Lucas (1973) and Ball, Mankiw and Romer (1988).

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