



WP/02/212

IMF Working Paper

A Political-Economic Model of the Choice of Exchange Rate Regime

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IMF Working Paper

Treasurer's Department

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December 2002

Abstract

The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

Facing electoral uncertainty, a government chooses its exchange regime in a trade-off among three incentives: (i) tying the hands of its opponent should it lose the election; (ii) facilitating its own future policy implementation should it win the election; and (iii) increasing its chance of reelection.

JEL Classification Numbers: F41; P00

Keywords: exchange rate regimes; political economy

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¹ I am indebted to Eduard Brau, Jianhai Lin, Gian Maria Milesi-Ferretti, and Andres Velasco for their comments on earlier drafts. All errors are mine.

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