The Fallacy of the "Currency War" under the Flexible Rates

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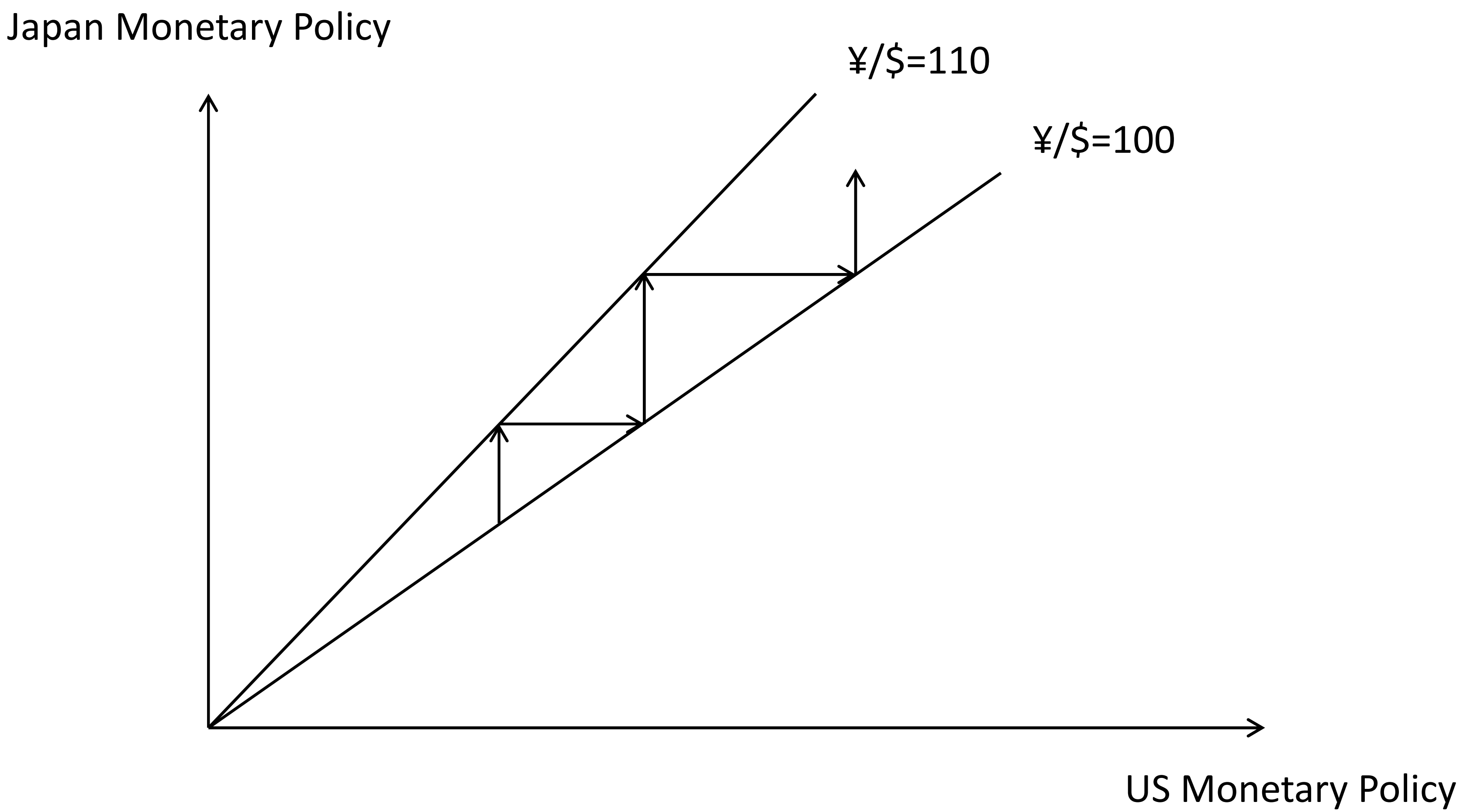
Each Country can undo the Negative Spill-over

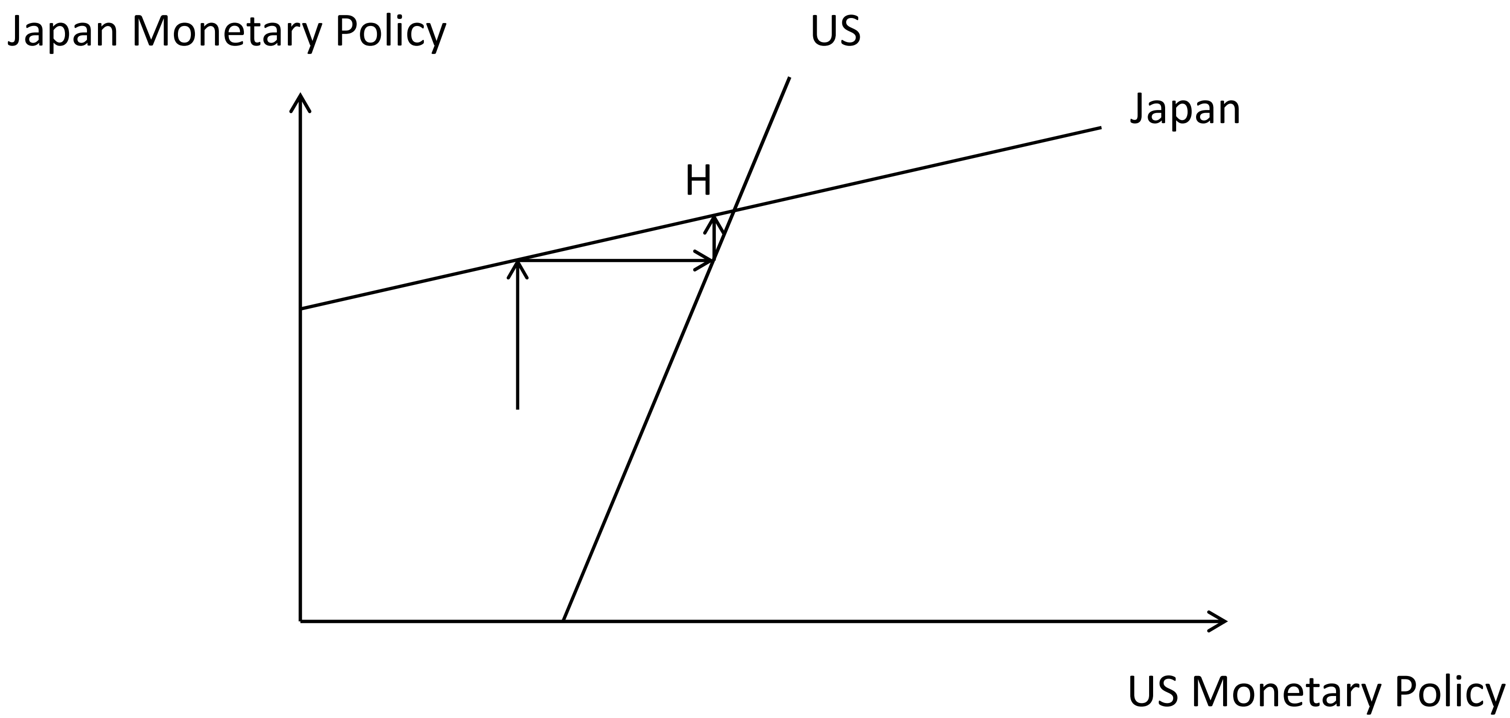
- Sachs (with Eichengreen), Cooper in 1984
- Historically as well as theoretically the Beggar-Thy-Neighbor Doctrine is false.
- Monetary approach to exchange rates combined with strategic (game theoretic) approach will prove in a classical setting that
- Laissez faire monetary policy by each country will achieve the Pareto-optimum configuration. (Hamada-Okada, 2007)

Naive Currency War
Target: Nominal Exchange Rate



Results: World Inflation

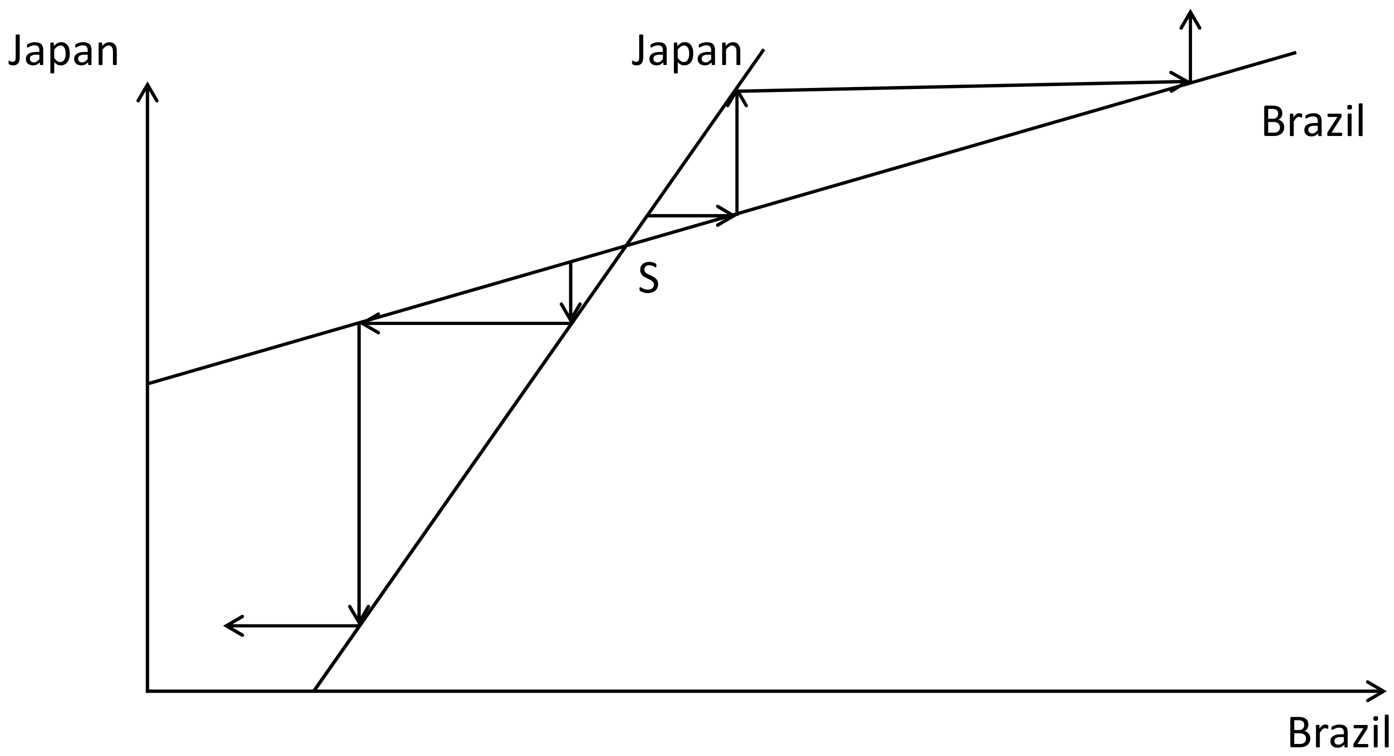
The Fallacy of the Currency War Under Flexible Rates
Targets: Price Levels (Unemployment rate)
(Reality)



Results: Harmony: Laissez-Faire leads to a Pareto Optimum.
Each country can undo the negative effect of its neighbor.

Cf: Eichengreen-Sachs (1984), Hamada-Okada (2009)

The Meltdown of the World Currency System
Targets: The price level of the neighbor country



Japan aiming Brazil's price level

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