

Figure 16-1

17-1

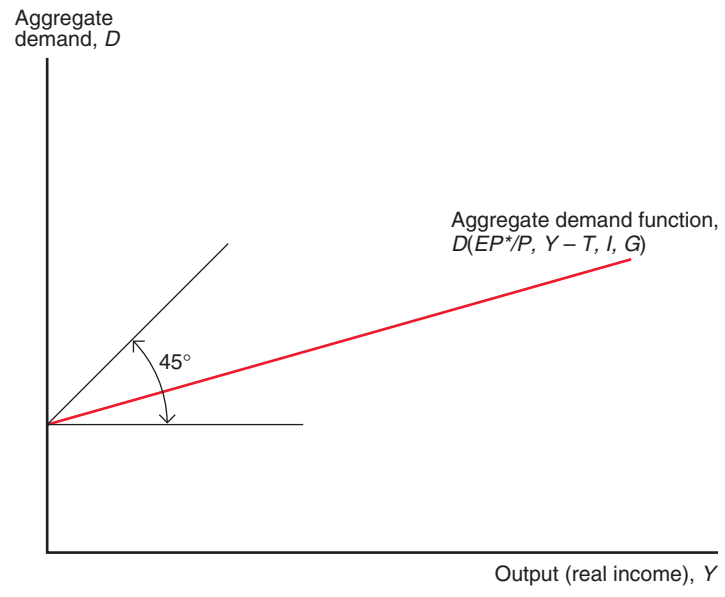


Figure 16-2

17-2

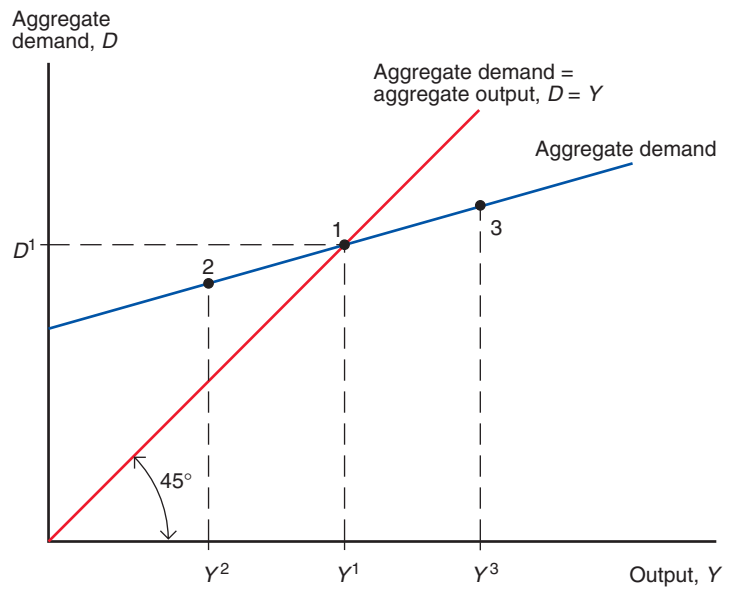


Figure 16-3

17-3

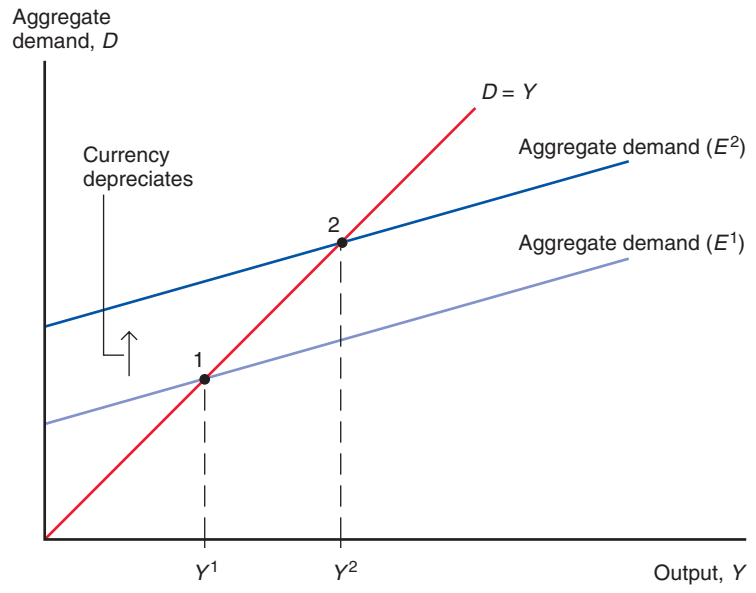
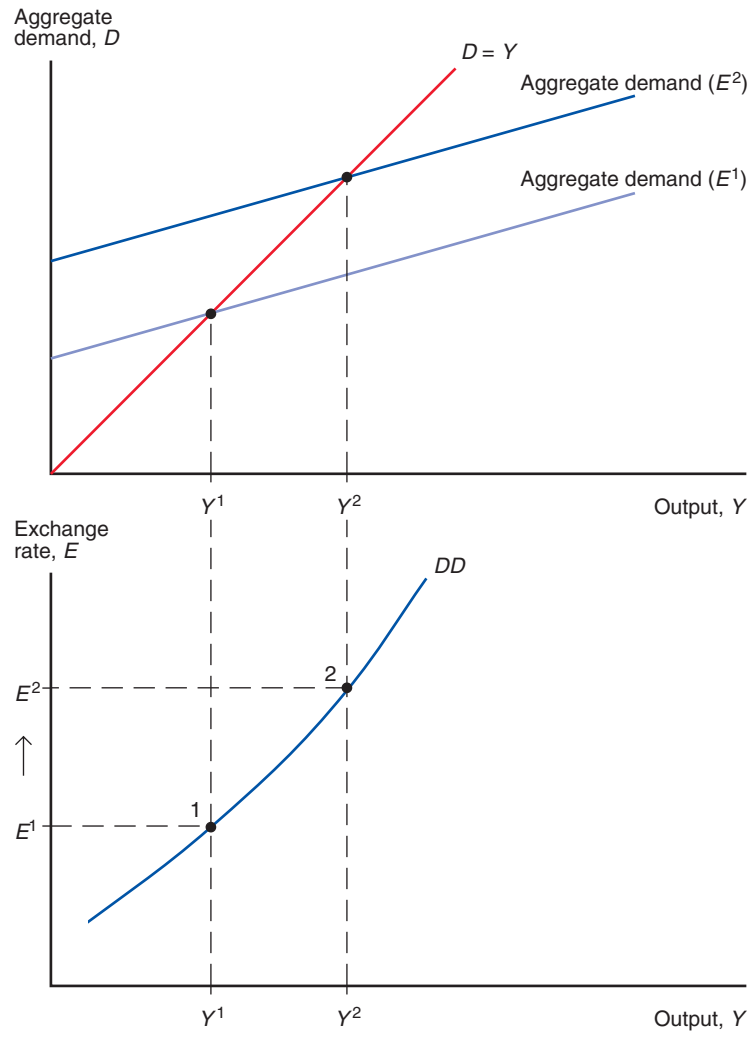


Figure 16-4

17-4



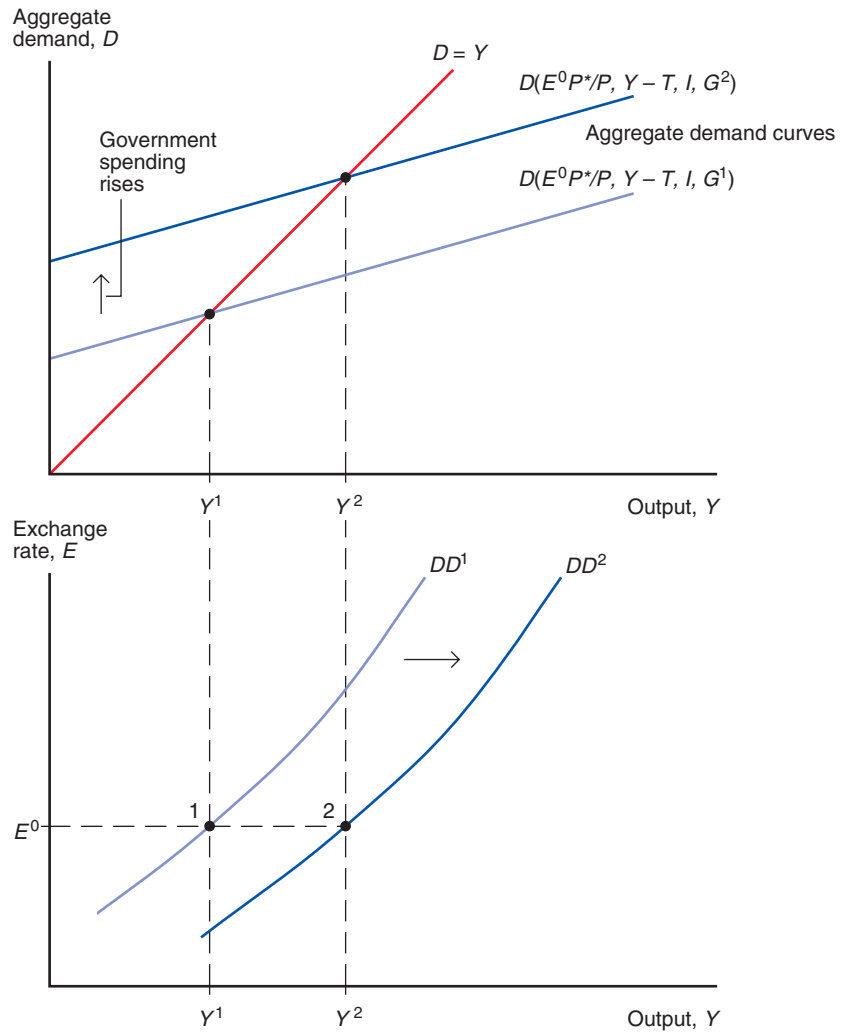


Figure 16-5

17-5

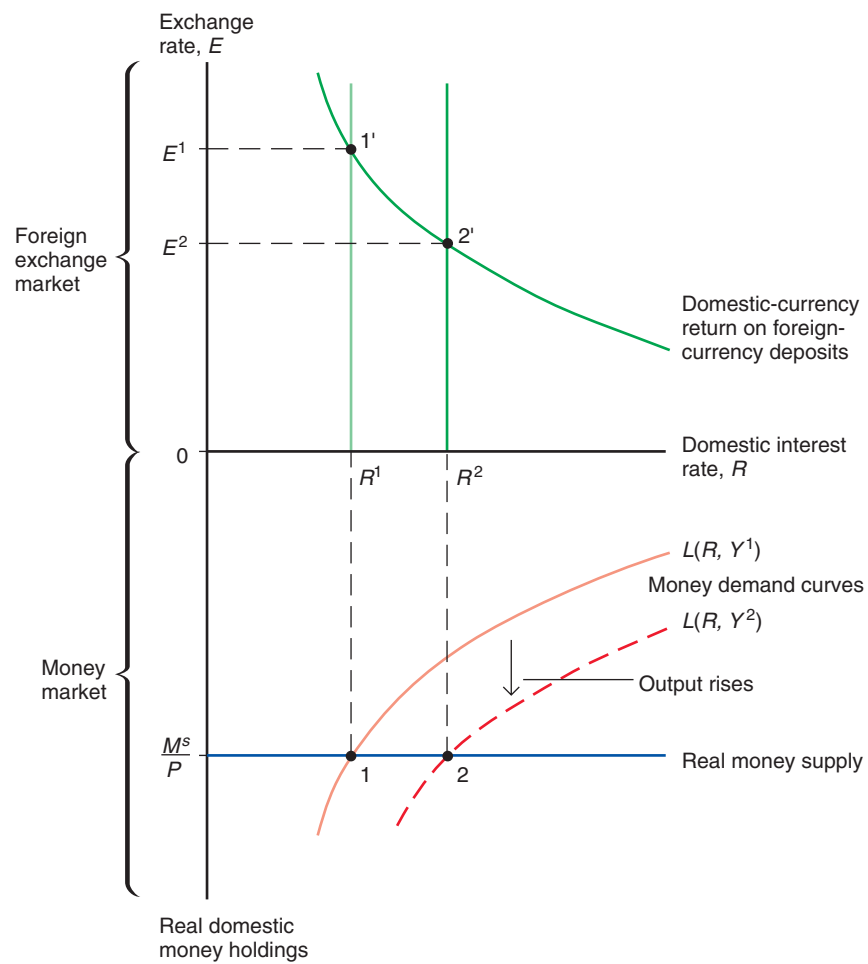


Figure 16-6

17-6

Figure 16-7

17-7

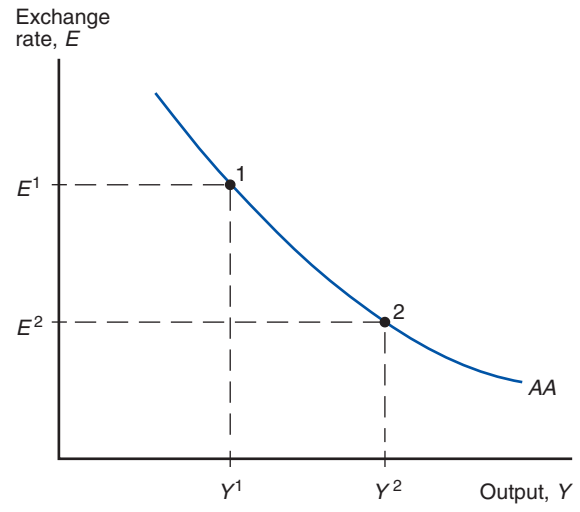


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17-8

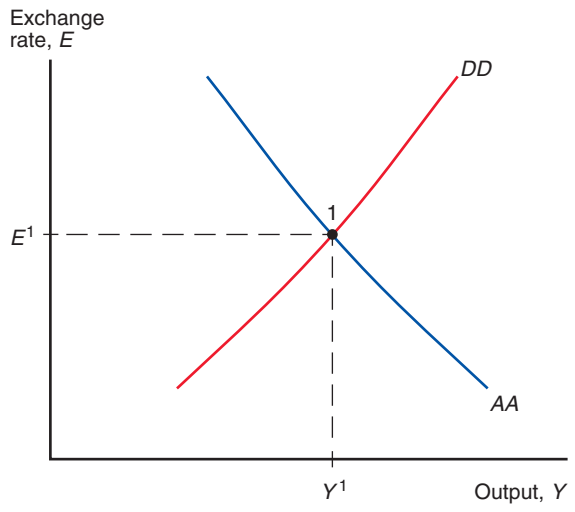


Figure 16-9

17-9

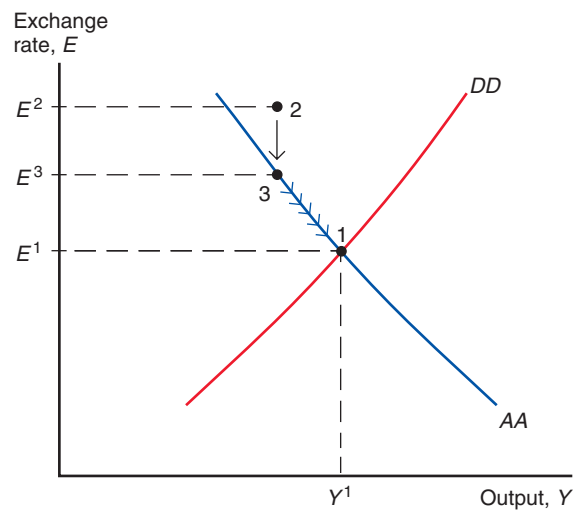
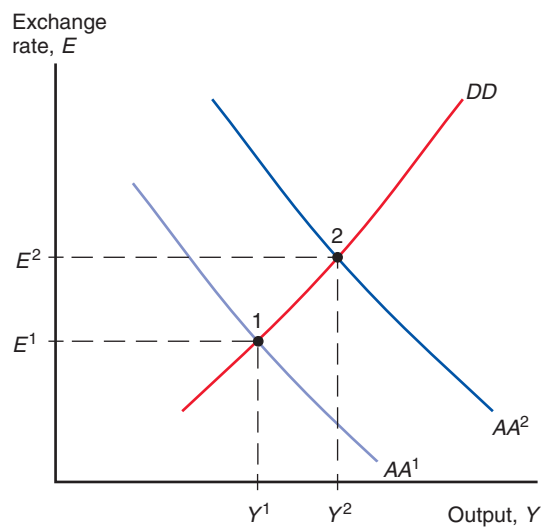


Figure 16-10

17-10



~~Figure 16-11~~

17-11

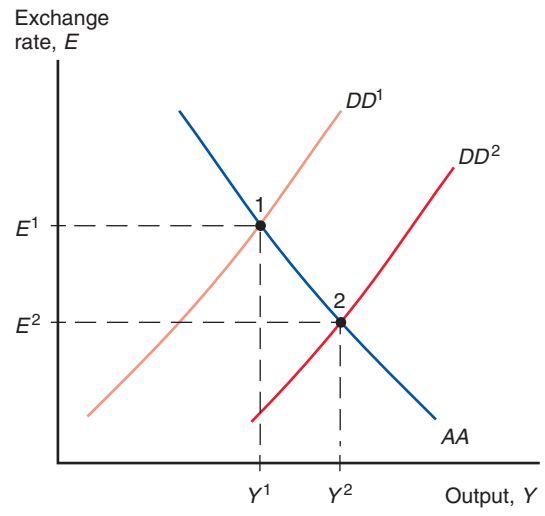


Figure 16-12

17-12

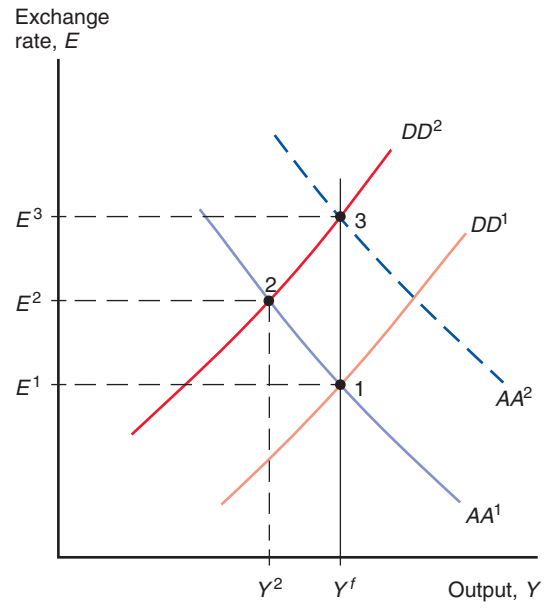


Figure 16-13

17-13

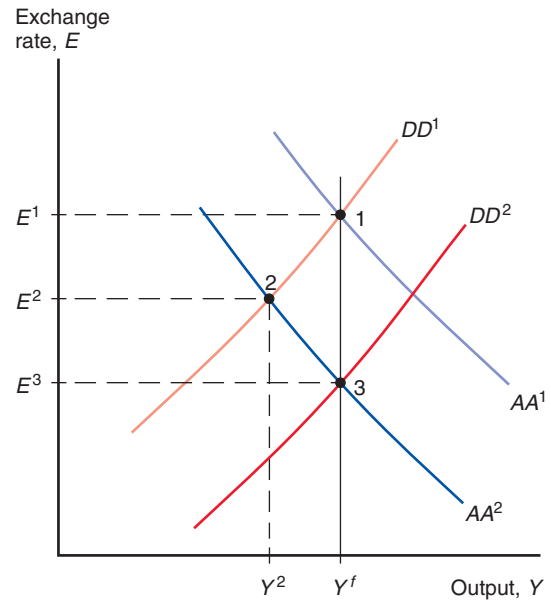


Figure 16-14

17-14

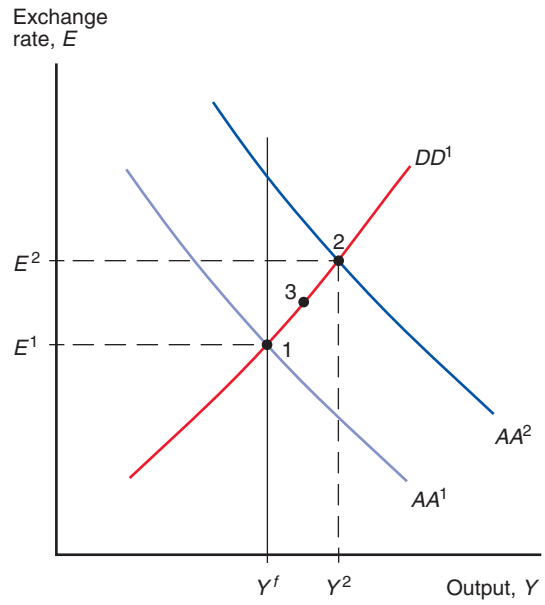


Figure 16-15

17-15

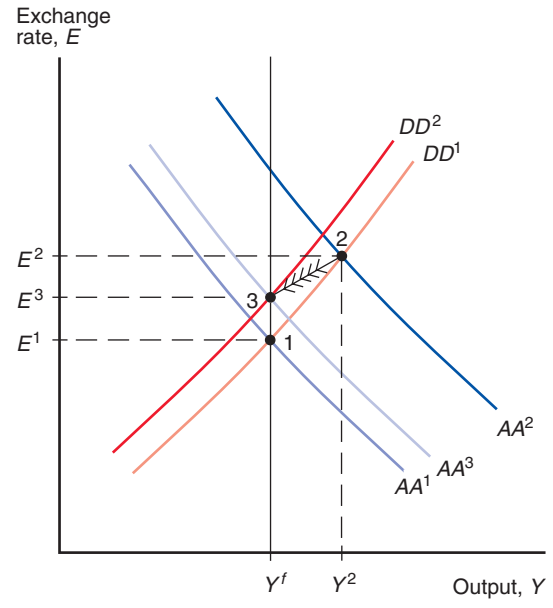


Figure 16-16

17-16

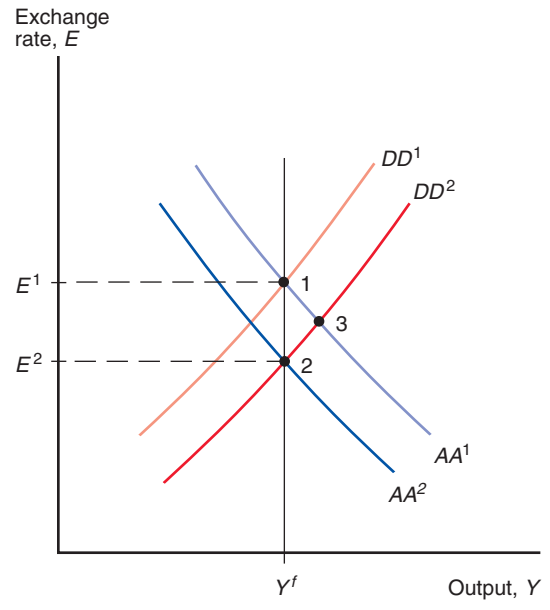
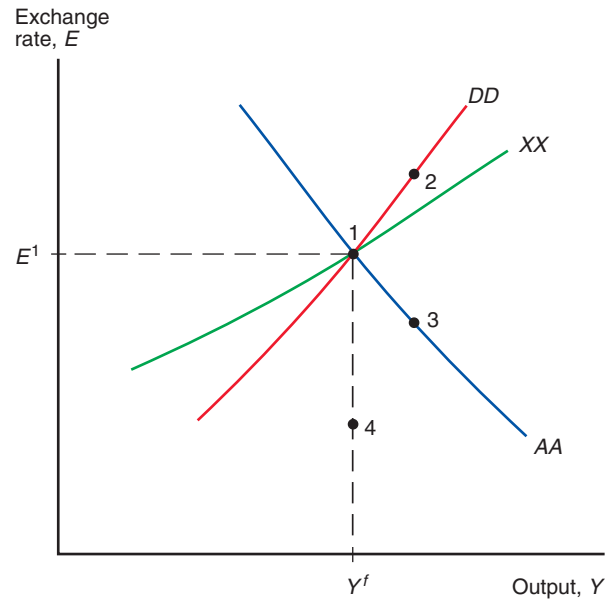


Figure 16-17

17-17



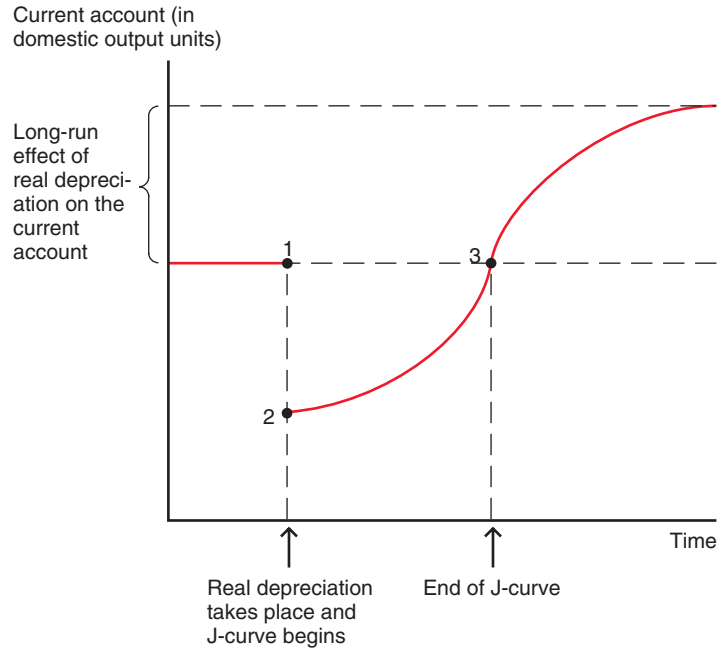
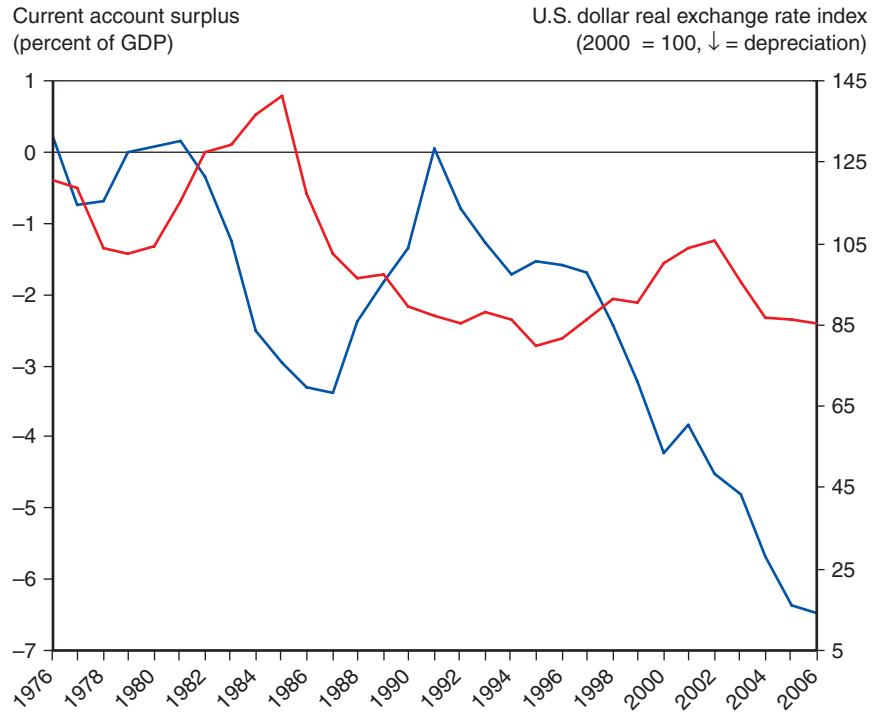


Figure 16-18

17-18



UnFig 17-1

See Excel file for revised data

Author's note: In 8e the figure does not show which series is the real exchange rate and which is the ratio of the current account to GDP. Please repair this in 9e.

Figure 1
A Low-Output Liquidity Trap

At point 1, output is below its full-employment level. Because exchange rate expectations E^e are fixed, however, a monetary expansion will merely shift AA^1 to the right, leaving the initial equilibrium point the same. The horizontal part of AA^1 gives rise to the liquidity trap.

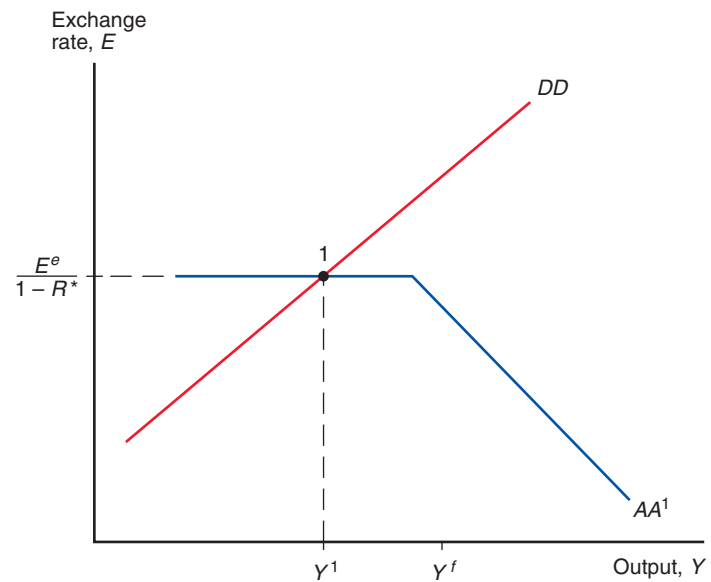
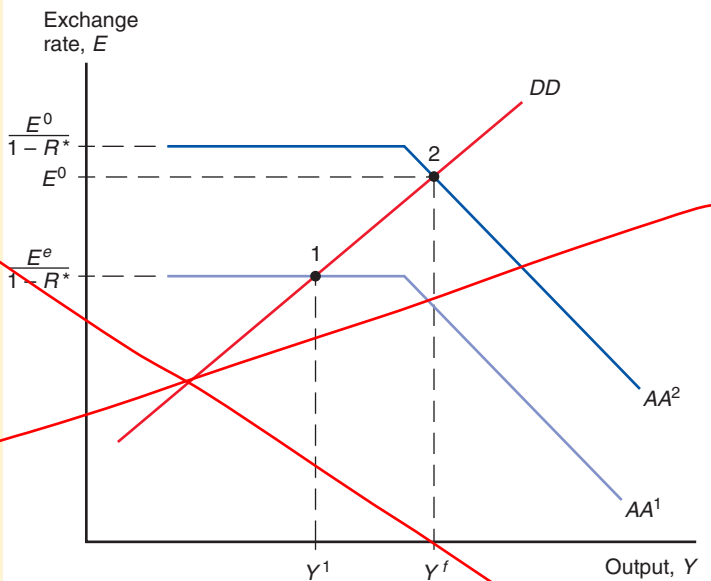


Figure 2
Fixing the Exchange Rate to Restore Full Employment

By pegging the exchange rate at E^0 , the government alters exchange rate expectations and shifts AA^1 to AA^2 . As a result, the economy exits the liquidity trap and returns to full employment.



Will Japan actually adopt such a plan? The alternative could be a long period of deflation that brings about an equivalent real currency depreciation. Because Japan's problems appear to be as much political as economic, it is hard to predict how and when the country will escape from its current liquidity trap.

Figure 16A1-1

17A1-1

