Currency Areas and Voluntary Transfers

by Pierre M. Picard and Tim Worrall
Journal of International Economics

Glossary of Symbols

Foreign variables are distinguished by an $*$ superscript. Where necessary, the currency area or flexible exchange rate regime are designated by a c or f superscript.

- $\theta > 1$ is the elasticity of substitution between labor services.
- $\delta < 1$ is the discount factor.
- $\mu < 1$ measures the preference for real money balances. $\xi = \mu^{\mu}(1-\mu)^{(1-\mu)}$. $\vartheta = \mu/(1-\mu)$.
- $\sigma > 1$ is the elasticity of substitution between home and imported goods.
- γ is coefficient of relative risk aversion.
- ψ is the inverse Frisch elasticity of labor supply. In the paper $\psi = 1$.
- M_0 is money supply.
- a_s is the inverse productivity in state s. $z < 1$ is the Home productivity in the "Good" state.
- b_s is a measure of relative productivity in state s.
- C is the lower tier composite of consumption of Home and Foreign goods.
- X is the upper tier composite of consumption of goods and real money balances.
- L is labour supplied.
- D is product demand.
- W is the wage set one period in advance.
- ε_s is the exchange rate in state s.
- P is the price index.
- p is the price of Home goods.
- T_s is the intercountry transfer, to Home from Foreign, in state s. T is the vector of transfers.
- $\bar{T}_s$ is an optimal transfer. $\hat{T}_s$ is the best constrained transfer.
- E is total expenditure.
- Y is income, equal to the value of production and the wage bill.
- A is a measure of global productivity.
- B_s is a measure of the impact of the exchange rate on local prices.
- $W(T)$ is the wage as a function of transfers.
- $U_s(W,T)$ is the indirect utility function in state s as a function of the wage and transfers.
- $V_s(W,T)$ is the discounted expected indirect utility in state s.
- $B_s(T_s)$ is the measure B_s as a function of the transfer.
- $\bar{\delta}$ is the minimum discount factor above which optimal transfers can be sustained.
- $\underline{\delta}$ is the maximum discount factor below which no transfers can be sustained.
- $\tau \geq 1$ is a transaction cost factor for the exchange of currencies.