External constraints on macroeconomic policy: the European experience

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The Constraints on Macroeconomic Policies: The Assignment Problem. The basic theory of macroeconomic policy for the open economy has been advanced by the contributions of James E. Meade and Robert A. Mundell. The key characteristic of these contributions is the perception that considerations concerning the openness of the economy and the implications of the openness to the conduct of policies are fundamental and belong to the center stage of the analysis. To nullify the intended effects of policies have led to doubts about the efficacy (and wisdom) of stabilization policies and have resulted in policy pessimism. This section surveys some of the elementary issues relevant for the analysis of policies. The European Central Bank (ECB) is the central bank of the 19 European Union countries which have adopted the euro. Our main task is to maintain price stability in the euro area and so preserve the purchasing power of the single currency. Such policies are also assumed to be successful in averting large financial amplification channels. The current macroeconomic projection exercise covers the period 2020-22. Projections over such a long horizon are subject to very high uncertainty, and this should be borne in mind when interpreting them. See the article entitled "An assessment of Eurosystem staff macroeconomic projections" in the May 2013 issue of the ECB's Monthly Bulletin. This policy note lays out a framework for designing macroeconomic policy geared toward real macroeconomic stability with growth. This framework is based on the view that there need to be broader goals, additional instruments beyond fiscal and monetary policies (including capital account management, regulations, and other microeconomic tools), and a balanced role for government and the private sector. All economic policies involve trade-offs, the question here is whether the benefits of further reducing inflation outweigh its costs. Since 1991 most developed and developing countries have experienced low or moderate inflation, with many countries experiencing relatively low inflation. When inflation is low or moderate, 7.