

Taylor Rules and Equilibrium Determinacy in a Two-Country Model with Non-Traded Goods *

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April, 2011

Abstract

We analyze a relation between interest-rate control and equilibrium determinacy using a two-country model in which non-traded goods may exist and parameters of preference and production may be different between these countries. Such heterogeneity can strongly affect on macroeconomic stability, and openness of economy may not be an essential solution for indeterminate equilibrium.

Keywords and Phrases: heterogeneity, Taylor rule, open economy, non-traded goods, equilibrium determinacy.

JEL Classification Numbers: E52, F41.

*I am grateful to Kazuo Mino for his helpful comments on earlier versions of this paper. Additionally, this work is supported by the Japan Society for the Promotion of Science (JSPS) through a Grant-in-Aid for Scientific Research (No. 22830034).

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