

Interest-Rate Control Rules and Stability in a Heterogeneous Two-Country Model *

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Abstract

We analyze a relation between some types of interest-rate control rules and equilibrium determinacy using a two-country model in which parameters of preference and production may be different between these countries, and two kinds of goods are tradable. Such heterogeneity may violate Taylor principle which implies desirability of aggressive monetary policy in order to attain determinate equilibrium. We can consider the forms of interest-rate control for macroeconomic stability in use of the heterogeneity.

Keywords and Phrases: heterogeneity, Taylor rule, open economy, equilibrium determinacy.

JEL Classification Numbers: E52, F41.

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