

COLLAPSING EXCHANGE RATE REGIMES:
THE EXPERIENCES OF MEXICO AND ARGENTINA

Linda S. Goldberg
New York University
Department of Economics
269 Mercer Street
New York, N.Y. 10003

November 1987 (short version)

Abstract

This paper applies a model of collapsing exchange rates to the pegged and crawling rate experiences of Mexico, 1976 to 1983, and Argentina, 1977 to 1983. Using a model which allows for randomized monetary policy and random price shocks, we derive a range of one-period ahead probabilities of exchange regime collapse and derive a time-series of shadow exchange rates which provide lower bounds for the post-collapse exchange rates. These shadow rates are the exchange rates that would clear the money market if the rates were freely floating after a speculative attack on central bank foreign exchange reserves. The model performed very well, both in generating 'realistic' collapse probabilities and in predicting the post-collapse exchange rate.