nation with stronger mercantilist sentiments will have higher long-run consumption and foreign

The optimization problem of the representative agent with an infinite horizon is maximizing

$$\int$$

which tells that the marginal bene...ts of holding foreign assets, i.e., $w'(b)$, is equal to the net marginal bene...ts of holding money, i.e., $u_m(c;m) \quad ((r + \quad)=(1 + \quad))\, u_c(c;m)$.[3] Equation (6) is the modi...ed consumption Euler equation (or the modi...ed Keynes-Ramsey condition): the marginal rate of substitution between consumption at two points in time equal the rate of substitution plus the marginal rate of substitutution of consumption and foreign assets. Combining equations (3), (5) and (6) yields

$$u_{cc}(c;m)c + u_{cm}(c;m)m = (\quad r)u_c(c;m) \quad (1 + \quad) \; w'(b); \tag{8}$$

which describes explicitly the growth rate of the marginal utility of consmption (notice that $(u_c) = u_{cc}(c;m)c + u_{cm}(c;m)m$

simultaneously, the expected and actual growth rates of the nominal exchange rate also coincide. For $P_t = E_t$, we know that

$$\frac{P}{P} = \frac{E}{E} = e = \quad : \tag{12}$$

Therefore,

$$m = \left(\frac{M}{M} \quad \frac{P}{P} \right) m = (\qquad) m: \tag{13}$$

For (7), we have $\quad =$

must be larger than the real interest rate in the economy. Equation (18) is the equilibrium *dc*

holding money. Thus, consumers will economize real money balances and buy foreign assets in

(1997), proposition (3.4) provides support for the mercantilist policy of protection, namely, the

$$\frac{dc}{dR} = \quad rw^{00}(b \quad)[($$

$$c''(0) = (r \quad _3)\,[H_R(\ _2) \quad H_R(\ _2)] \quad \frac{(\quad r)^2\,(y + rR \quad g)}{(1+\quad)\,[\quad r\,(1+\quad(1+\quad))]}\,[(1+\quad)\,H\ (\ _2) + \quad H\ (\ _2)]\,;$$

!91 Tf -9091 Tf 9.098[(!9) 7[

(23)

$$m''(0) = \quad 8 \quad \text{>XXX<} \quad \text{>XXX<} \; .$$

:
!91 Tf -9091 Tf 9.098[(!9) 7[

5 Cclusi.e132n

If the slope of the first curve is larger than the one of the second curve at each point (i.e., (20) holds),[11] then they cross only once in the space of $(c\ ; m\ )$. That is to say, if (20) holds, then the steady state exists uniquely.

We will confirm that if (20) holds, then the steady state is saddle-point stable. We linearize the dynamic equations (15), (14), and (16) around the steady state as follows:

$$\begin{pmatrix} c \\ m \\ b \end{pmatrix} = \begin{pmatrix} \frac{A_{11}}{u_{cc}} & \frac{A_{12}}{u_{cc}} & \frac{A_{13}}{u_{cc}} \\ \frac{m\ [(r+\ )u_{cc}\quad (1+\ )u_{mc}]}{u_c} & \frac{m\ [(r+\ )u_{cm}\quad (1+\ )u_{mm}]}{u_c} & m\ [(1+\ )\ w^{00}(b\ )] \end{pmatrix}$$

c

$$c_{''}(0) = (r \quad {}_3)\,[H_R(\ {}_2) \quad H_g(\ {}_2)] \qquad (\quad r)^2\,(y + rR$$

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