

# The Expansionary Lower Bound

by Paolo Cavallino and Damiano Sandri

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- Nominal rigidities in international trade as an **alternative**
  - “Global Monetary Cycle” (Egorov and Mukhin 2019)

# This Paper

- Two stylized models of a SOE with financial frictions

① Carry-trade capital flows

② Currency mismatch

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## ① Carry-trade capital flows

$$B_t^F = \frac{1}{\gamma_t} \mathbb{E}_t \left[ \frac{e_t}{e_{t+1}} \frac{I_t^B}{I_t^*} - 1 \right]$$

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$$L_t < \phi \left( L_{t-1} I_{t-1} - e_t \Uparrow D_{t-1}^* I_{t-1}^* \right) \Downarrow$$

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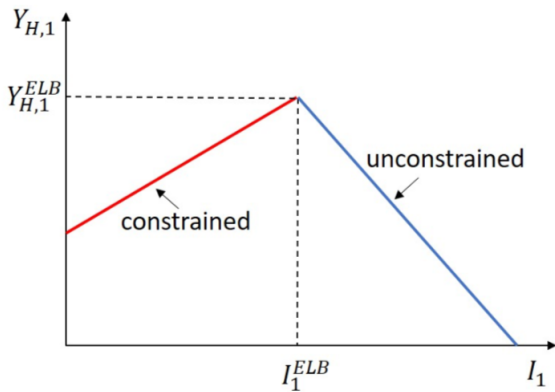
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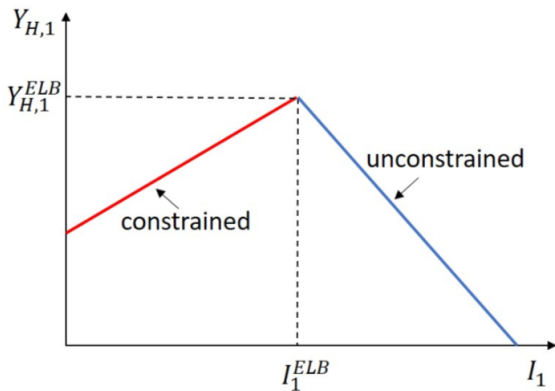
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- Results:

- Occasionally binding credit constraint
- Tighter ex-ante monetary policy
- Additional policy instruments including macro-pru



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  - Assumed no disutility from labor and discretion  $\rightarrow$  eq'm may not exist



- Ambitious paper
- Could make it stronger by generalizing key insights
- Very important research area
  - with an abundance of stylized models
  - and a lack of a benchmark
- Interesting point about forward guidance!