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Consumption-Ranciere vs. Two-Good Model; 10. Optimal Reserve Behavior-Two Good Model with both TOT and Aid Shock [I]; 11. Optimal Reserve Behavior-Two Good Model with both TOT and Aid Shock [II]; 12. Actual Level of Reserves to GDP ratio for SSA countries; 13. Sensitivity of Optimal Reserves to Key Parameters; 14. Sensitivity of Optimal Reserves to Key Parameters; 15. Reserve Adequacy for African Countries Using Two-Good Model /1; VI. Conclusion; 16. Country Specific Application-Illustrative Examples.
A1. Benchmark ParametersA2. Simulation Parameters for Countries;
References; References

Sommario/riassunto

This paper looks at the question of adequacy of reserves in sub-Saharan African countries in light of the shocks faced by these countries. Literature on optimal reserves so far has not paid attention to the particular shocks facing low-income countries. We use a two-good endowment economy model facing terms of trade and aid shocks to derive the optimal level of reserves by comparing the cost of holding reserves with their benefits as an insurance against a shock. We find that the optimal level of reserves depends upon the size of these shocks, their probability, and the output cost associated
