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U.S. International Investment Position; Figures; 1. Real Effective Exchange Rate, January 1973-September 2008; 2. Current Account Balance and Non-Oil Balance on Goods and Services (ratio of GDP, 1970Q1-2008Q2); 3. Real Effective Exchange Rate and "WARP" Index; 4. Lagged "WARP" Index and Non-Oil Balance of Goods and Services 5. Non-Oil Trade Balance and Real Exchange Rate: Cross-Correlation (1978Q1-2008Q2)6. Terms of Trade and Oil Prices, 1973-2008; References

Sommario/riassunto

The real effective exchange rate of the dollar is close to its minimum level for the past 4 decades (as of September 2008). At the same time, however, the U.S. trade and current account deficits remain large and, absent a significant correction in coming years, would contribute to a further accumulation of U.S. external liabilities. The paper discusses the tension between these two aspects of the dollar assessment, and what factors can help reconcile them. It focuses in particular on the terms of trade, adjustment lags, and measurement issues related to both the real effective exchange rate and the
