1.	Record Nr.	UNINA9910788349103321
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	Titolo	The International Diversification Puzzle when Goods Prices Are Sticky : : It's Really About Exchange-Rate Hedging, not Equity Portfolios / / Akito Matsumoto, Charles Engel
	Pubbl/distr/stampa	Washington, D.C. : , : International Monetary Fund, , 2009
	ISBN	1-4623-0432-X 9786612842344 1-4519-8828-1 1-4518-7159-7 1-282-84234-X
	Descrizione fisica	47 p
	Collana	IMF Working Papers
	Altri autori (Persone)	EngelCharles
	Soggetti	Hedging (Finance) Foreign exchange rates Banks and Banking Investments: Stocks Macroeconomics Money and Monetary Policy International Finance: General Foreign Exchange Open Economy Macroeconomics Portfolio Choice Investment Decisions Pension Funds Non-bank Financial Institutions Financial Instruments Institutional Investors Price Level Inflation Deflation Monetary Systems Standards Regimes Government and the Monetary System Payment Systems Macroeconomics: Consumption Saving

Wealth
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Stocks
Sticky prices
Currencies
Consumption
Hedging
Financial institutions
Prices
Money
Financial regulation and supervision
National accounts
Economics
Financial risk management
United States

Lingua di pubblicazione	Inglese
Formato	Materiale a stampa
Livello bibliografico	Monografia
Note generali	Bibliographic Level Mode of Issuance: Monograph
Nota di bibliografia	Includes bibliographical references.

Sommario/riassunto

This paper develops a two-country monetary DSGE model in which households choose a portfolio of home and foreign equities, and a forward position in foreign exchange. Some nominal goods prices are sticky. Trade in these assets achieves the same allocations as trade in a complete set of nominal state-contingent claims in our linearized model. When there is a high degree of price stickiness, we show that not much equity diversification is required to replicate the complete-markets equilibrium when agents are able to hedge foreign exchange risk sufficiently. Moreover, temporarily sticky nominal goods prices can have large effects on equity portfolios even when dividend processes are very persistent.