Discussion of: *Monetary and Financial Policies in Emerging Markets*

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- This paper: a theory to think about (1) and (2)
- Flip perspective on dollarization: usually described as **"original sin"**
- Here: equilibrium outcome of **portfolio choice** $\rightarrow$ **Insurance** motive by domestic lenders

Mechanism

Building block 1: collateral constraint with asset price

1. Suppose **closed** economy with **collateral constraint**

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pecuniary externality $\rightarrow$ (multiple) self-fulfilling equilibria

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- Once again: pecuniary externality $\rightarrow$ self-fulfilling equilibrium

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- Most interesting part!

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- Amplified multiplicity logic?

Policy

FX reserves: a free lunch?

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2. **Fiscally credible** (Why? FX holdings appreciate in a crisis)

- Silent on the **allocative costs** of FX reserves

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2. FX reserves vs **capital** controls (Optimal policy?)

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- Ample evidence that FX interventions affect **ex. rates**. Do FX interventions affect **firms' portfolio** composition in the "right" direction?
- Need to look at **micro data** on firms' / households' balance-sheet.

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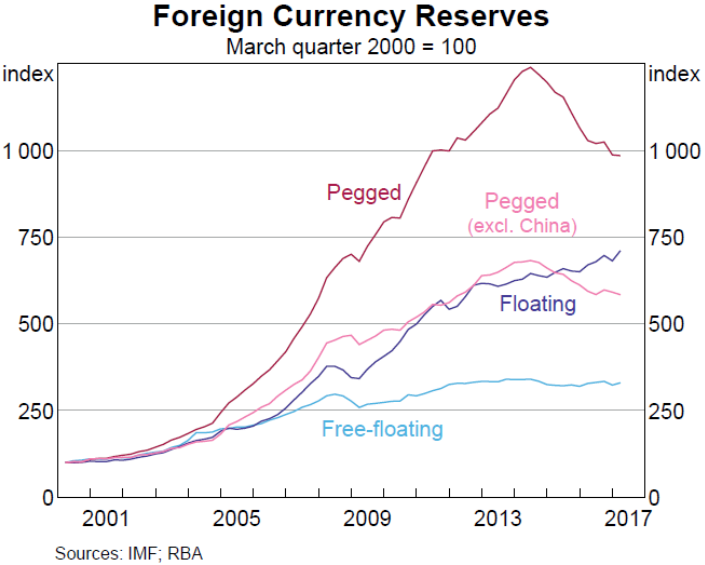
- Akin to analysis of effects of QE
- How are FX interventions implemented? Anticipated interventions: risk of being **distortive**

How FX reserves vary across countries?



- Why (**through the lens of the model**) do peggers

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- Also optimal policy? Fixed or state contingent K controls?)

Conclusions

- Must-read!
- Optimal policy analysis: K controls vs FX interventions
- Monetary policy: a complement or a substitute?