MONETARY BASE VOLATILITY AND CURRENT ACCOUNT IN U.S.

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ABSTRACT

This paper examines the effect of U.S. monetary base volatility and inflation rate on current account deficit and real GDP over the past three decades. A dynamic linear model/DSGE with two rational expectations components finds that change in monetary base volatility has positive effect on change in current account balance thus confirms previous finding of a close tie between current account and money. An increase in change in inflation rate reduces change in GDP as well as current account balance. It is observed that only during January 2008 to March 2009 the Marshall-Lerner condition held in the U.S. Results support negative relationship of the Harberger-Laursen-Metzler effect in the study period.

Keywords: *Volatility of Monetary Base, Dynamic Linear Model, Current Account*