

# A DYNAMIC MONETARY MODEL WITH COSTLY FOREIGN CURRENCY

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## **Abstract**

I present a dynamic general equilibrium monetary model with domestic and foreign currencies and a traded bond where there is an adjustment cost to switch into foreign currency. The focus is on the short versus long run trade offs and transitional dynamics of domestic and foreign monetary disturbances as a function of attributes of currencies in utility. The main finding is that short and long run trade offs and transitional dynamics together with the implied hysteresis property of the equilibrium are critical determinants of the qualitative results of domestic and foreign monetary disturbances in this class of models.

*JELit* Classification Codes: *E41, F3, F41.*

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