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Notes on effects of changes in exchange rates

a depreciation (devaluation) acts like a tax on imports and a subsidy to exports

The more open the economy and the more accomodative domestic monetary policy, the bigger will be the effects on domestic prices

This "pass through" reduces the size of the effects of a change in the nominal exchange rate on the real exchange rate.

The Marshall-Lerner condition about demand elasticities — that $|edx + edm| > 1$ for devaluation to work — applies to changes in the real exchange rate.

The same mechanism holds with price level changes under fixed rates which also change real exchange rates

a devaluation doesn't have to cause a worsening of the T/T to be effective

J curve effects