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## Book review

**International Finance and Open-Economy Macroeconomics; Gandolfo/Giancarlo. Springer-Verlag, New York, 2001. pp. xxiv + 613, \$99**

In this survey of international finance and open-economy macroeconomics, Gandolfo succeeds in meeting the needs of advanced undergraduate or lower-level graduate students through a largely textual and graphical approach, while at the same time presenting in the appendices explicit mathematical analyses for more advanced graduate students. While the use of appendices is quite common, Gandolfo has written almost a parallel textbook in these mathematical presentations, which comprise about one third of the book and accompany all 18 of the theoretical chapters.

The book's coverage includes the standard topics of most texts in the field, starting with an exposition of the foreign-exchange market. He surveys the major theoretical approaches and describes the history of exchange-rate regimes and policies, including chapters on European Monetary Union and recent concerns about debt and exchange-rate crises. Empirical studies are amply referenced but, for the most part, not explicitly discussed.

The chapters (and the appendices) are relatively independent, with self-contained notation, making it possible to understand almost any chapter or appendix without having read those preceding. As a result, this book provides the building blocks to put together any of several courses with different topics and at different levels. For advanced graduate students, the intuitive discussions of the chapters can serve either as introductions to models under study or as a broader survey of models that the course does not address in more detail. The mathematical exposition in the appendices is succinct, so that an in-depth study of a model would usually require also reading the original articles.

The chapters on optimum currency areas and the European Monetary Union are particularly good, as is the discussion of speculation and currency crises. Gandolfo makes a strong argument for the contributions of intertemporal models, while admitting their slight influence on policy to date. After a brief discussion of the Representative Agent Intertemporal Optimization Models, he gives particular attention to the NATREX (Natural Real Exchange Rate) model and its empirical success in explaining medium to long-run exchange-rate dynamics for several currencies, including Gandolfo's own applications of the model to Italy.

Occasionally he gets the emphasis wrong. His discussion of possible dynamics underlying the static Mundell–Fleming model with a flexible exchange rate is idiosyncratic and fails to convey the real intuitive contributions of that model. In another

example, his claim that devaluation has only temporary effects in the monetary model confuses devaluation's effectiveness in eliminating a deficit with the futile effort to create an ongoing surplus through devaluation. But these are small quibbles about an excellent and highly readable text, useful at several levels of international finance/macro courses.

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