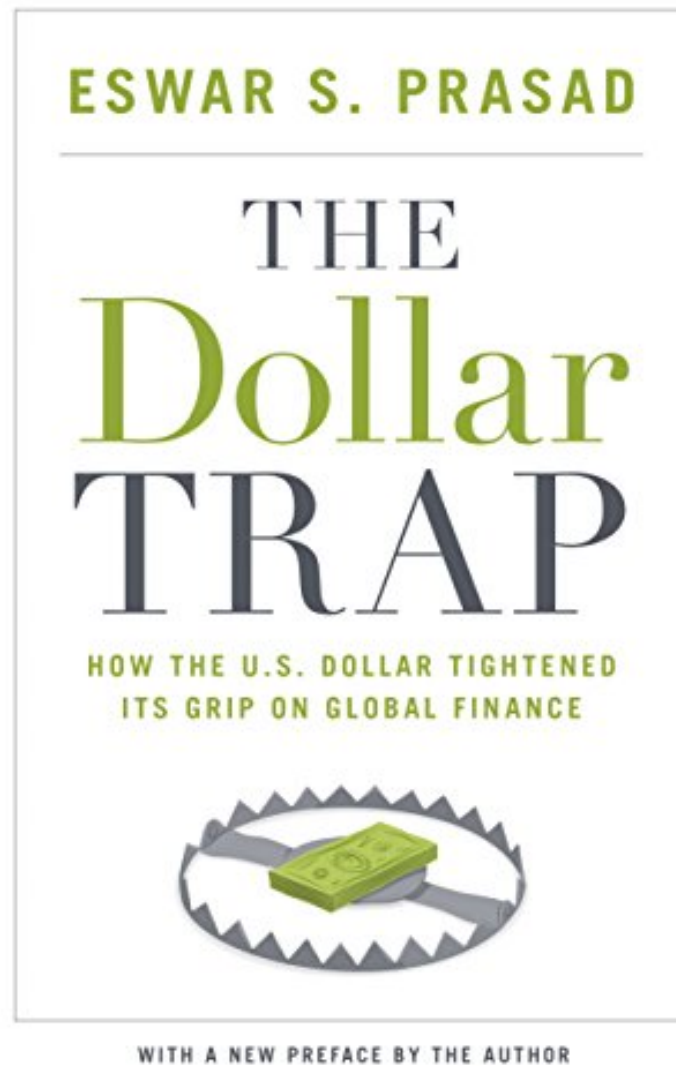


(Pdf free) The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance

The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance

Eswar S. Prasad

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Eswar S. Prasad : The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance:

13 of 14 people found the following review helpful. Thoughtful, topical, and very well-written By Julian Berengaut Today's headlines in the financial press are all about how minor adjustments in US monetary policy (the

taper) lead to major repercussions for emerging markets all over the globe with their governments having to take unpopular measures to defend their currencies. Think about for a moment and marvel how strange it is--their economies are growing faster, their financial systems haven't had to recover from a near bankruptcy, they are financing our fiscal deficits and not the other way around. So how come they are the ones who suffer when the Fed steers its policies to benefit the US economy? Professor Prasad explains this odd state of affairs in his fascinating book with its total command of economic theory and empirical data (including Wikileaks!) and with a keen eye on real-life policy dilemmas as experienced by the key policy makers. Yes, despite the US economy lurching from one crisis to another, the role of the US dollar in the international financial system keeps getting stronger and is likely to remain so for a long time to come. Faced with a world-wide savings glut and a shortage of safe assets, it is the relative position of the US dollar that matters. Economics isn't always about rewarding the virtuous. Highly recommended. As they say, read the whole thing.

3 of 3 people found the following review helpful. A look at the role of the dollar through the crisis and how entangled the currency is in the modern global economy

By A. Menon

The dollar continues to be the center of much literature these days and its position as the primary reserve currency at the center of global finance remains unchallenged. The Dollar Trap recounts how the dollar has done through the crisis, how some of the empirical facts about its use would seem counterintuitive at first but more sensible with more time for reflection and describes the landscape today along with some of the fragilities that come with the architecture. It is an informative book for those unfamiliar with the role of the dollar today in international finance as well as even handed about the perspectives of its use by the central banking and international finance community. The book is split into 4 parts but the first one titles "setting the stage" is just that, a short 2 chapters on the role of the dollar through the financial crisis and through quantitative easing and the euro sovereign crisis. Despite the financial crisis originating in the US, the dollar remained the asset of safety; a result that many would be considered counterintuitive. The first major part of the book is titled "Building Blocks". Starting with economic principles the author discusses how traditional economic theories of capital flows do not correspond to what happens in practice. Capital ought to flow from where capital is abundant to where it is scarce as the relative return would justify more investment where its marginal utility is higher. Thus from this lense of neoclassical growth poor countries should be the recipient of capital flows with the flows coming from the developed world. In practice the asian tigers, japan and China have all achieved growth while running account surpluses (asian financial crisis aside). The author discusses why this happens and discusses various perspectives but focuses on the role of the dollar as a macroeconomic stabilizing tool. The author then moves on to the framework of the international monetary system and the differences in institutional quality around the world in the third section titled "Inadequate Institutions". With the Fed engaging in quantitative easing to try to ease monetary conditions with the belief that investment from lower rates would spur growth there was a spillover into exchange rates globally. The dollar would relatively weaken as participants would prefer to earn higher yields in other currencies (barring in mind that quantitative easing does not have a uniform record of weakening the dollar and as such the above argument can be true at times but is one of many background processes). In a time with subdued domestic demand, the export channel has been extremely important for many emerging economies and relative strength of the exchange rate became a political issue. The author discusses the economics and politics of this channel as well as the economic perspectives of both emerging markets and of the US. He also discusses classical arguments in favor of flexible exchange rates and then emerging market practical arguments for their failures. He includes counterintuitive narratives about how even better institutions might create new inflows and be counterproductive (ie usually economists would argue that if an economy cannot handle hot money flows it should develop better financial markets but there could be cases where better financial markets ceterus paribus would change the relative desirability of the destination with better markets such that the improvement would be counterproductive). One gets a true sense of how interconnected the financial world is and local improvements to global problems might not be incrementally beneficial. Coordination is often required when a system is brittle to change. The author ends with a proposal for global insurance that is based off real time policy decisions by countries which would determine the premiums paid. It is an interesting idea though practically it is hard to see it happen anytime soon. The author finally moves on to the competitors for the dollar. The fourth section is titled Currency Competition. The hegemonic position of the dollar and why is the topic of much of the book so the end focuses on whether there are competitors to it in the making. The author spends the most time on the RMB and discusses where it has grown, how the authorities are handling its introduction (which is gradualist) and what is needed for reserve currencies. The author notes that China, though incredibly important economically and as a trading partner does not fulfill the qualities of a reserve currency as in a world that is based off capital and financial flows rather than trade flows the depth, breath and liquidity of the reserve asset matter more than where the goods are being traded (though in the long run it is hard not to see a relationship between those two). The author also discusses the idea of dollar fragility but dismisses it in todays context by noting the self-reinforcement of the system. This is not to make the claim that the system is stable but rather than todays dynamics are locally self reinforcing. The Dollar Trap is a comprehensive overview of the role of the dollar in a world of increasing financial and capital flows. Some of the attributes of the dollar at first seem counterintuitive but when looked at as the relatively most attractive asset in a world of scarce safe scalable assets the paradox's disappear. This is not encouraging as the use dollar can lead to

complacency by the US and its fantastic institutions might not be sufficient at some point though that some point might be far in the future. It is interesting to note the Euro was not discussed at much length despite it being the 2nd reserve currency; its problems are quite obvious today but nonetheless speculation about a slow drift to a more consolidated fiscal region is not considered. All in all there is a lot of solid insightful information in this work. I don't think that it has a strong thesis though, it is just informative by its practical description of the landscape today. So at times the organization doesn't lead to a natural flow. Nonetheless it is a worthwhile read for those interested in the global monetary system as it stands today, what its vulnerabilities are and where it might be headed.² of 2 people found the following review helpful. Excellent book on a very interesting topic
By Matt RI thought this book was very well written and informative. Mr. Prasad's theory aligns far more closely with reality than what you read from the doom and gloom crowd who is constantly predicting the collapse of the dollar. This book provides a good analysis for what has taken place historically and recently related to the dollar's role in the world economy and the advantage that we currently gain from having the world's reserve currency. This book is a very good counter-perspective to the endless amount of authors predicting a Weimar Republic style currency collapse. The author however, does not paint an overly rosy scenario, but instead offers some of the challenges which the dollar will face in the future as well as outline the current problems that must be addressed. Speaking from the perspective of a non-academic, normal person who finds economic related topics fascinating, I thought this book was very informative and well worth the purchase price.

The U.S. dollar's dominance seems under threat. The near collapse of the U.S. financial system in 2008–2009, political paralysis that has blocked effective policymaking, and emerging competitors such as the Chinese renminbi have heightened speculation about the dollar's looming displacement as the main reserve currency. Yet, as *The Dollar Trap* powerfully argues, the financial crisis, a dysfunctional international monetary system, and U.S. policies have paradoxically strengthened the dollar's importance. Eswar Prasad examines how the dollar came to have a central role in the world economy and demonstrates that it will remain the cornerstone of global finance for the foreseeable future. Marshaling a range of arguments and data, and drawing on the latest research, Prasad shows why it will be difficult to dislodge the dollar-centric system. With vast amounts of foreign financial capital locked up in dollar assets, including U.S. government securities, other countries now have a strong incentive to prevent a dollar crash. Prasad takes the reader through key contemporary issues in international finance—including the growing economic influence of emerging markets, the currency wars, the complexities of the China-U.S. relationship, and the role of institutions like the International Monetary Fund—and offers new ideas for fixing the flawed monetary system. Readers are also given a rare look into some of the intrigue and backdoor scheming in the corridors of international finance. *The Dollar Trap* offers a panoramic analysis of the fragile state of global finance and makes a compelling case that, despite all its flaws, the dollar will remain the ultimate safe-haven currency.

Winner of the 2015 Gold Medal in Economics, Axiom Business Book Awards Honorable Mention for the 2015 PROSE Award in Business, Finance Management, Association of American Publishers One of Financial Times (FT.com) Best Economics Books of 2014, chosen by Martin Wolf One of China Business News's Financial Books of the Year for 2014 "Thoughtful."--Jeff Sommer, New York Times "[A] surprising argument. . . [L]ucid."--David Wessel, Wall Street Journal "Richly detailed study of global finances, examining how and why the dollar became the favored currency of international trade."--Kirkus "To understand how the world of international finance works, what the agendas are and what is at stake, this work is indispensable."--Henny Sender, Financial Times "In his authoritative new book on the dollar, Eswar Prasad . . . argues that China and other foreign countries that own around half the outstanding US federal government debt are trapped in a risky game where the US may be tempted to renege on its debt obligations by printing more dollars."--John Plender, Financial Times "A lively and compelling analysis on currency wars in the wake of the financial crisis--and the likely persistence of the U.S. dollar as the world's pre-eminent currency."--Harold James, Central Banking Journal "This is a very well researched and thoughtfully written book, which rightly received several awards. . . Very worthwhile reading. It is well written and very convincing."--Michael Frenkel, Journal of Economics and Statistics From the Back Cover "As Eswar Prasad points out, there is something paradoxical about a world where the dollar strengthens with the U.S. financial crisis, capital flows from poor countries to rich ones, and more sophisticated finance often leads to greater risk. Prasad's book unpacks these paradoxes in a provocative and challenging way. It deserves the attention of all those who care about the future of the dollar and the international monetary system."--Lawrence H. Summers, Harvard University "Combining history, modern analysis, and practical examples, this elegant book counters conventional wisdom and brilliantly documents why it's so hard to escape the dollar trap. Prasad describes an increasingly unstable equilibrium that begs for better international policy coordination and he sets out fascinating and important alternatives that will particularly interest policymakers and investors. A must-read for all concerned about the dollar's global role."--Mohamed A. El-Erian, author of *When Markets Collide* and CEO of PIMCO "At a time when the global repercussions of U.S. monetary policy are being closely examined, *The Dollar Trap* takes an authoritative look at the dollar's role in the international

economy. The discussion of capital flows and the historical rise and fall of reserve currencies provides insights into the turbulent post-financial-crisis era and serves as a roadmap for thinking about the dollar's future. A must-read for anyone interested in how the wheels of international finance spin."--Carmen M. Reinhart, Harvard University

"Prasad tackles one of the toughest and most important implications of the 2008 financial crisis--the exorbitant privilege that has long been accorded the almighty U.S. dollar as the world's dominant reserve currency. While he argues convincingly that this status is unlikely to change in the years immediately ahead, he plants seeds that make the reader ponder when--not if--the dominant role of the greenback might start to change."--Stephen Roach, Yale University and former chairman of Morgan Stanley Asia

"This book makes a compelling case against the conventional wisdom that the dollar's dominance is drawing to an end. Prasad provides an elegantly written and provocative account of the various paradoxes that beset the global financial system, and shows how the United States holds many trump cards that will secure the dollar's primacy for a long time to come."--Nouriel Roubini, coauthor of *Crisis Economics*

"Giving an insightful look at a problematic international monetary system, *The Dollar Trap* draws conclusions that may comfort some but disturb others. To those caught in the trap there remains a strong desire to find a safe way out. The guardians of the dollar should have the time and the political will to act, in order to demonstrate that this is all unnecessary."--Joseph Yam, former chief executive of the Hong Kong Monetary Authority

"Scholarly and yet eminently readable, this outstanding book should be compulsory reading for Indian policymakers, market participants, and all those concerned with the Indian economy. I fully endorse the masterly analysis, clear conclusions, and elegant articulation in this book on a subject critical for India's future. This provocative, informative, and incisive book fills a huge void in our understanding of the future of the dollar and indeed of the global economy."--Yaga Venugopal Reddy, former governor of the Reserve Bank of India

"Adopting a contrarian view to the idea that the dollar's role as a global reserve currency will diminish, *The Dollar Trap* makes a compelling argument for the continuing relevance of the dollar even in the wake of the global economic dynamics witnessed after 2008 and the rise of emerging markets. Dr. Prasad makes an important contribution to the discussion on the international monetary order. I am sure this book will be of great interest to anyone wanting to understand the forces shaping the global economy, trade, and financial markets."--Chanda Kochhar, managing director and CEO of ICICI Bank

About the Author
Eswar S. Prasad is a professor in the Dyson School at Cornell University and senior fellow at the Brookings Institution.