

Editor's Foreword

Recent years have witnessed a boom in scholarly literature on dynamic models of the macroeconomy and international economic interdependence that build on explicit microfoundations, the cornerstones of economic theory. This research has gained intellectual traction at a number of important policy institutions and is now widely used in macroeconomic analysis and for guidance in policy making.

The six papers in this issue are noteworthy examples of this policy-relevant research. The authors are researchers at the US Federal Reserve, the International Monetary Fund, the European Central Bank, the Bank of Japan, the Sveriges Riksbank and the Banco Central de Chile. The topics are illustrative of the important issues to which recently developed techniques are being applied in these and other institutions: the effects of fiscal policy on, and the determinants of, the US trade deficit; the consequences of changes in government spending for consumption dynamics in the euro area; how to manage monetary policy in a liquidity trap; and the conduct of inflation targeting in industrialized and emerging market economies.

The papers were presented at a conference on 'New Policy Thinking in Macroeconomics', held at the Council on Foreign Relations in New York on 12 November 2004, and sponsored by the Council's Maurice R. Greenberg Center for Geoeconomic Studies with the support of McKinsey & Company and Blackwell Publishers.

All the papers were subject to normal refereeing before being accepted for publication in this issue. In addition to thanking the authors for contributing these important papers, and the conference sponsors for making the conference and this issue possible, I would like to express my personal gratitude to the outstanding conference discussants, participants and referees for their contributions to the research presented in this issue, and to Benn Steil for his invaluable support and editorial guidance.

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