



NEWS RELEASE

The Federal Reserve Bank of St. Louis
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Media Advisory (1/3/97)

St. Louis Fed's *Review* Looks at NAFTA and the Mexican Peso, Foreign Exchange Value of the U.S. Dollar, Monetary Policy and Financial Market Expectations, and the U.S. Business Cycle

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The latest edition of *Review*, the Federal Reserve Bank of St. Louis' bimonthly journal of economic and business issues, features the following articles:

- **“The Giant Sucking Sound: Did NAFTA Devour the Mexican Peso?”** When the North American Free Trade Agreement (NAFTA), was enacted in 1992, politicians and commentators such as Ross Perot and Pat Buchanan claimed that it led to a devaluation of the Mexican peso and economic turmoil in that country. Economist Christopher J. Neely's refutation of the critics' arguments comes at a time when U.S. policymakers are deadlocked over whether to extend NAFTA to Chile.
- **“A Question of Measurement: Is the Dollar Rising or Falling?”** Trade-weighted exchange rate indexes measure changes in the average foreign exchange value of the U.S. dollar. Yet, they produce different answers to how much the dollar has changed and, in some cases, even whether the value of the dollar has risen or fallen. Economists Cletus C. Coughlin and Patricia S. Pollard examine the factors that might account for the contrasting views of changes in the dollar.

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- **“Monetary Policy and Financial Market Expectations: What Did They Know and When Did They Know It?”** Interest rates sometimes seem to respond to actions by the Federal Reserve’s policy actions in unexpected ways — for example, falling when the Fed “tightens” monetary policy or rising when the Fed “eases” policy. Economists Michael R. Pakko and David C. Wheelock attempt to demystify those responses. They show how trading in the federal funds futures market reveals public expectations of Federal Reserve actions, and how the knowledge of those expectations can help interpret the behavior of interest rates.

- **“Nominal Stylized Facts of the U.S. Business Cycle.”** Economists Apostolos Serletis and David Krause investigate the basic nominal stylized facts of business cycles in the United States.

Note to editors: A news release on NAFTA and the Mexican peso follows.