

COUNTRY PORTFOLIOS IN OPEN ECONOMY MACRO MODELS

Michael B. Devereux
University of British Columbia

Alan Sutherland
University of St Andrews

Abstract

This paper develops a simple approximation method for computing equilibrium portfolios in dynamic general equilibrium open economy macro models. The method is widely applicable, simple to implement, and gives analytical solutions for equilibrium portfolio positions in any combination or types of asset. It can be used in models with any number of assets, whether markets are complete or incomplete, and can be applied to stochastic dynamic general equilibrium models of any dimension, so long as the model is amenable to a solution using standard approximation methods. We first illustrate the approach using a simple two-asset endowment economy model, and then show how the results extend to the case of any number of assets and general economic structure. (JEL: E52, E58, F41)