a revaluation from the same event. The possibility is obviously there for there to be knock-on effects such as a devaluation by an important trading partner. If a devaluation occurs in response to a domestically driven savings-investment imbalance that has little to do with domestic competitiveness *per se* (e.g., the imbalance is driven by the capital account, not the current account), exchange rate regime becomes a mechanism for externalizing a country's policy problems (e.g., a reluctance to raise incentives to save). It is not at all obvious that the system as a whole will function well.

And, indeed, the empirical record suggests that there have been generalized problems: exchange rate behaviour is one the areas of international economics where puzzles have emerged.[19] Three general features of the post-Bretton Woods exchange rate system have attracted researchers' attention: First, and perhaps most importantly, the large swings in the bilateral exchange rates linking the three major currencies (US dollar, yen and euro), the amplitudes of which are hard to explain on the basis of conventional theory. Second, there have discontinuous shifts of exchange rate parities, often large in magnitude, that have led to the formulation of theories of multiple equilibria. Third, there have been persistent divergence of currencies from the neighbourhood of their purchasing power parity.

Taking the issues in turn, it might be noted that the United States, Japan and the European Union together account for roughly 2/3 of global production and a sizeable proportion of total trade (both directly on a cross-border basis and indirectly through foreign affiliate sales). The exchange rates that link these economies are unquestionably three of the most important prices in the global economy. They affect not only the mutual competitiveness of enterprises in those economies but also of enterprises in other countries that are linked to these firms through foreign direct investment, as suppliers, or as direct

[19] For a discussion, see Dan Ciuriak, "Trade and Exchange Rate Regime Coherence: Implications for Integration in the Americas", *The Estey Centre Journal of International Law and Trade Policy*, Volume 3 Number 2, 2002: 256-274.