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A Survey on the Effects of Sterilized Foreign Exchange Intervention

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In this paper we survey prominent theories that have shaped the literature on sterilized foreign exchange interventions. We identify three main strands of literature: 1) that which advocates the use of sterilized interventions; 2) that which deems sterilized interventions futile; and 3) that which requires some market friction in order for sterilized interventions to be effective. We contribute to the literature in three important ways. First, by reviewing new theoretical models that have surfaced within the last decade. Second, by further penetrating into the theory of interventions in order to analyze the key features that make each model distinct. And third, by only focusing on sterilized operations, which allows us to sidestep the effects induced by changes in the stock of money supply. Additionally, the models that we present comprise both a macro and micro-structure approach so as to provide a comprehensive view of the theory behind exchange rate intervention.

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