



Optimal Commodity Price Stabilization over the Business Cycle

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This paper develops a model to study the design, characterization and dynamic implications of stabilization policies in a dynamic general equilibrium model of the business cycle for an economy tainted by the Dutch disease. The model incorporates a stabilization scheme for the producer price of an export crop in a three- sector RBC model. Stabilization funds have been very popular instruments in developing countries to deal with export price instability. This paper shows that such schemes cannot improve the functioning of the economy, notwithstanding the assumed sub optimality of private outcomes and the possibility of having welfare enhancing policies.