

Abstract. Dominating the behavior of real exchange rates for the dollar during the course of the past two and a half decades have been two substantial and for many countries largely offsetting movements. In the years surrounding the breakdown of Bretton Woods most exchange rates fell precipitously and throughout the 1970s remained low. Near the start of the 1980s they began a rise that continued more or less unabated until early 1985. Any explanation of exchange rate behavior over this period, therefore, has to account for both of these movements, not simply the increase in real exchange rates for the dollar in the 1980s that has been the topic of so much discussion in the financial press. The explanation offered in this paper attributes these movements to the two important changes in monetary policy that occurred during these years.