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Title	Trend Inflation and Exchange Rate Dynamics A New Keynesian Approach
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Abstract	This study examines the exchange rate implications of trend inflation within a two-country New Keynesian (NK) model. An NK Philips curve generalized by trend inflation makes the two-country inflation differential smoother, more persistent, and less sensitive to the real exchange rate. The equilibrium of the model, which is supported under Taylor rule-type monetary policies with a persistent trend inflation shock and strong interest rate smoothing, mimics a series of empirical regularities in real and nominal exchange rates that are hard to be reconciled jointly within a standard NK model. Trend inflation helps explain the empirical puzzles of exchange rate dynamics.
Keywords	Real and Nominal Exchange Rates, Trend Inflation, New Keynesian Models
JEL	E31, E52, F31, and F41