

[Importing Aggregate Demand](#)

CFM-DP2026-12

Chen Lian³, Dmitry Mukhin¹ and Christian Wolf²

¹London School of Economics and Political Science, ²Massachusetts Institute of Technology,

³University of California, Berkeley

How exposed are open economies to global demand shocks? In equilibrium, foreign booms can be absorbed either by domestic consumption (“quantities”) or by real exchange rate appreciation (“prices”). We show that failures of Ricardian equivalence and global financial market imperfections, two frictions popular in much recent work, have opposite effects on the split: while elevated marginal propensities to consume push towards quantities, financial frictions instead increase price adjustment. As the flexible-price equilibrium generally features a mix of quantity and price responses, policy needs to be contractionary to achieve flexible-price outcomes if the spending effect dominates, and vice-versa if financial frictions are severe. In our quantitative explorations the spending effect tends to win the race, necessitating aggressive domestic policy action.