

# **Intramarginal Interventions, Bands and the Pattern of EMS Exchange Rate Distributions**

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## **Abstract**

Following Bertola and Caballero (1992), we document an empirical puzzle for EMS exchange rates during a period in which these exchange rates were (almost) credible, i.e. exchange rate distributions are hump-shaped rather than U-shaped as predicted by the standard target zone model. We offer an explanation which is based on the combination of two realistic features, namely the presence of intramarginal interventions and wage/price sluggishness.