

The Macroeconomics of Financial Globalization

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This course studies the effects of financial globalization. The first section documents the rise of financial globalization, and it contrasts the evidence on its macroeconomic effects with the predictions of standard economic theory. The second and third sections develop a workhorse model of capital flows and financial frictions. We use this model to interpret the evidence and rethink the theory's policy implications. The last two sections use the framework to address the evolution of global imbalances and to explain the relationship between capital flows and the financial crisis of 2007-08, with special emphasis on Europe.

1. Financial liberalization: conventional view and evidence

*Taylor, A. and Obstfeld, M., Global Capital Markets. Integration: Crisis and Growth, Cambridge University Press, 2005, Chapters 1,2.

Bonfiglioli, A., (2008), "Financial integration, productivity and capital accumulation," *Journal of International Economics* 76, 337-55

*Henry, P., (2007), "Capital account liberalization: theory, evidence, and speculation," *Journal of Economic Literature* 65, 887-935

*Kose, A., E. Prasad, K. Rogoff, and S. Wei, (2009), "Financial globalization: a reappraisal," *IMF Staff Papers* 56, 8-62.

Lane, P., and G. Milesi-Ferreti (2013), "Global imbalances and external adjustment after the crisis", mimeo, IMF.

Prasad, E., R. Rajan, and A. Subramanian, (2007). "Foreign capital and economic growth," *Brookings Papers on Economic Activity*, 153-209

2. A workhorse model of capital flows and financial frictions

*Broner, F. and J. Ventura, (2012), "Rethinking the effects of financial liberalization," mimeo, CREI

Gertler, M., and K. Rogoff, (1990), "North-south lending and endogenous domestic capital market inefficiencies," *Journal of Monetary Economics* 26, pp. 245-266, 1990.

*Martin, A., and F. Tadei, (2012), “Capital flows and credit market imperfections: a tale of two frictions”, forthcoming, *Journal of International Economics*.

Matsuyama, K., (2004), “Financial market globalization, symmetry-breaking, and endogenous inequality of nations”, *Econometrica* 72, 2004.

3. Crises and policy implications

*Bianchi, J., (2010), “Credit externalities: macroeconomic effects and policy implications”, *American Economic Review, Papers and Proceedings*, 100(2).

*Caballero, R. and A. Krishnamurthy, (2001), “International and domestic collateral constraints in a model of emerging market crises,” *Journal of Monetary Economics* 8 (3), pp. 513-548.

*Calvo, G., A. Izquierdo and L. F. Mejía, (2004), “On the empirics of sudden stops: the relevance of balance-sheet effects,” NBER Working paper No. 10520.

International Monetary Fund (2011), “Managing capital inflows: what tools to use?”, Staff Discussion Note 11/06.

Korinek, A., (2011), “The New Economics of Prudential Capital Controls”, *IMF Economic Review* 59, 523-561.

4. Addressing global imbalances: the role of financial reform

*Caballero, R., E. Farhi, and P. Gourinchas, (2008), “An equilibrium model of ‘global imbalances’ and low interest rates,” *American Economic Review* 98, 358-93

*Gourinchas, P., and O. Jeanne, (2012), “Capital flows to developing countries: the allocation puzzle,” forthcoming, *Review of Economic Studies*.

Hsieh, C. and Klenow, P., (2009), “Misallocation and manufacturing TFP in China and India,” *Quarterly Journal of Economics* 124, 1403-1448

Kalemli-Ozcan, S., L. Alfaro and V. Volosovych, (2012), “Sovereigns, Upstream Capital Flows and Global Imbalances”, NBER working paper 17396.

*Martin, A. and J. Ventura, (2012), “Financial reform and capital flows: insights from general equilibrium,” mimeo, CREI.

*Song, Z., K. Storesletten and F. Zilibotti, (2011), “Growing like China,” *American Economic Review* 101, 196-233

5. Capital flows, the financial crisis of 2007-08 and Europe's banking woes

Bolton, P., and J. Olivier, (2011), "Sovereign default risk and bank fragility in financially integrated economies," *IMF Economic Review* 59, 162-194.

*Broner, F., A. Erce, A. Martin and J. Ventura, (2013), "Sovereign debt markets in turbulent times: creditor discrimination and crowding-out effects", mimeo, CREI.

Caballero, R., E. Farhi and P.O. Gourinchas, (2008), "Financial crash, commodity prices and global imbalances," *Brookings Papers in Economic Activity* 32, 1-68.

*Farhi, E. and J. Tirole, (2014), "Deadly embrace: sovereign and financial balance sheets doom loops", mimeo, Harvard.

*Gennaioli, N., A. Martin and S. Rossi, (2013), "Sovereign default, domestic banks, and financial institutions," forthcoming, *Journal of Finance*.

*Gennaioli, N., A. Martin and S. Rossi, (2013), "Sovereign default, banks, and government bonds: what do the data say?," mimeo, CREI.

Obstfeld, M., and Rogoff, K., (2010), "Global imbalances and the financial crisis, products of common causes," mimeo, Berkeley.

Lane, P., (2012), "The European sovereign debt crisis," *Journal of Economic Perspectives* 26, 49-68.

Classes will refer to all papers in the reading list, but they will draw heavily on those papers marked with an asterisk (*).