



**ALBERT-LUDWIGS-
UNIVERSITÄT FREIBURG**
Department of Economic Theory

Block Lecture: Global Financial Markets and Economic Development

January 2024

Lecturer: Prof. Tomoo Kikuchi, Waseda University, Japan

Time/Location:

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|-----------------------|-------|---------------------------|
| Monday, January 8 | 10-13 | HS 01 014, Wilhelmstr. 26 |
| Wednesday, January 10 | 10-13 | HS 01 014, Wilhelmstr. 26 |
| Friday, January 12 | 10-13 | HS 1228 |
| Saturday, January 13 | 10-13 | HS 1228 |
| Monday, January 15 | 10-13 | HS 01 014, Wilhelmstr. 26 |
| Wednesday, January 17 | 10-13 | HS 01 014, Wilhelmstr. 26 |
| Friday, January 19 | 10-13 | HS 1228 |

Written exam: Friday, January 19, 18-20, HS 1199

Language: English

ECTS (credit points): 4

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| Requirements: | We will discuss papers published in economics journals. Therefore, basic understanding of macroeconomics, microeconomics, and econometrics at the undergraduate level is desirable. |
| Learning/ qualification target: | You will understand theoretical and empirical models relevant for understanding how financial market globalization impacts convergence of incomes across countries and will be able to analyze the benefits and challenges for emerging economies from a long-term perspective. |

| Content: | Topics | | Readings | Comments |
|-------------|--|--------------------------------|---|----------|
| | Jan 8 | Introduction | Lucas (1990), Galor (1996) | |
| | Theory | | | |
| | Jan 10 | Overlapping generations models | Romer (2019) Ch.2 Part B | |
| | Jan 12 | Symmetry breaking | Matsuyama (2004) | ✓ |
| | Jan 13 | Endogenous cycle | Kikuchi & Stachurski (2009) | ✓ |
| | Jan 15 | Moral hazard | Kikuchi et al. (2018) | ✓ |
| | Empirical studies | | | |
| | Jan 17 | The allocation puzzle | Choose a paper from the list below for your presentation. | ✓ |
| Jan 19 | The exorbitant privilege | ✓ | | |
| Literature: | Introduction | | | |
| | <ul style="list-style-type: none"> Lucas, Robert E. "Why doesn't capital flow from rich to poor countries?" <i>American Economic Review</i> 80.2 (1990): 92-96. Galor, Oded. "Convergence? Inferences from theoretical models." <i>Economic Journal</i> (1996): 1056-1069. | | | |
| | Basics | | | |
| | <ul style="list-style-type: none"> Romer, David. "Advanced Macroeconomics." McGraw-Hill Education, 5th Edition, 2019. | | | |
| | Theory | | | |
| | <ul style="list-style-type: none"> Matsuyama, Kiminori. "Financial market globalization, symmetry-breaking, and endogenous inequality of nations." <i>Econometrica</i> 72.3 (2004): 853-884. Kikuchi, Tomoo, and John Stachurski. "Endogenous inequality and fluctuations in a two-country model." <i>Journal of Economic Theory</i> 144.4 (2009): 1560-1571. Kikuchi, Tomoo, John Stachurski, and George Vachadze. "Volatile capital flows and financial integration: The role of moral hazard." <i>Journal of Economic Theory</i> 176 (2018): 170-192. | | | |
| | Empirical studies | | | |
| | <ul style="list-style-type: none"> Alfaro, Laura, Sebnem Kalemli-Ozcan, and Vadym Volosovych. "Why doesn't capital flow from rich to poor countries? An empirical investigation." <i>Review of Economics and Statistics</i> 90.2 (2008): 347-368. Alfaro, Laura, Sebnem Kalemli-Ozcan, and Vadym Volosovych. "Sovereigns, upstream capital flows, and global imbalances." <i>Journal of the European Economic Association</i> 12.5 (2014): 1240-1284. Gourinchas, Pierre-Olivier, and Olivier Jeanne. "The elusive gains from international financial integration." <i>Review of Economic Studies</i> 73.3 (2006): 715-741. Gourinchas, Pierre-Olivier, and Olivier Jeanne. "Capital flows to developing countries: The allocation puzzle." <i>Review of Economic Studies</i> 80.4 (2013): 1484-1515. Gourinchas, Pierre-Olivier, and Helene Rey. "From world banker to world venture capitalist: US external adjustment and the exorbitant privilege," in <i>G7 current account imbalances: sustainability and adjustment</i>, University of Chicago Press (2007): 11-66. Gourinchas, Pierre-Olivier, Helene Rey, and Maxime Sauzet. "The international monetary and financial system," <i>Annual Review of Economics</i> 11.8 (2019): 859-893. Gozzi, Juan Carlos, Ross Levine, Maria Soledad Martinez Peria, and Sergio L. Schmukler. "How firms use corporate bond markets under financial globalization." <i>Journal of Banking & Finance</i> 58 (2015): 532-551. Kikuchi, Tomoo, and Satoshi Tobe. "How does foreign debt contribute to economic growth?" arXiv:2109.10517 Lane, Philip R., and Gian Maria Milesi-Ferretti. "The external wealth of nations | | | |

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| | revisited: international financial integration in the aftermath of the global financial crisis.” IMF Economic Review 66.1 (2018): 189-222. | |
| Evaluation: | Exam: 40% | There will be a written exam on a specified date. |
| | Comments: 30% | You must comment (max 500 words) on the paper to be discussed in class. |
| | Presentation: 30% | You must choose a paper from the list of empirical studies and present it in class. |
| Additional information & links: | The course is divided in two parts. In the first half we study a class of theoretical models relevant for understanding how financial globalization affects income across countries. In the second half students present empirical studies to discuss international capital flows relate to the Lucas paradox “Why capital doesn’t flow from rich to poor countries.” | |