Two Stylized Facts

Current Account by region

% of World GDP

USA, Australia, UK  EU, Japan  ROW

Two Stylized Facts

- Current Account by region
- World Real Interest Rates
Asset Supply
Asset Supply

\[ K \rightarrow \{ X_{t+s} \} \]

\[ \delta X_t \]

tradable financial asset

\[ (1 - \delta) X_t \]

non-capitalizable income
Asset Supply and Asset Demand

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non-capitalizable income

\[ V_t = \frac{\delta X_t}{r - g} \]
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Asset Demand
Asset Supply and Asset Demand

- Asset Supply

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- Asset Demand

Non ricardian feature: \[ C_t = \theta W_t \]
Asset Supply

\[ V_t = \frac{\delta X_t}{r - g} \]

Asset Demand

Non ricardian feature: \[ C_t = \theta W_t \]

\[ W_t \xrightarrow{t \to \infty} \frac{(1 - \delta) X_t}{\theta + g - r} \]
Asset Supply

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Asset Demand

\[ W_t = \frac{(1 - \delta) X_t}{\theta + g - r} \]
Asset Supply and Asset Demand

Asset Supply

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Equilibrium:

\[ r = g + \delta \theta \]
Global Equilibrium

The diagrams illustrate the relationship between the world interest rate (r_world) and the world exchange rate (W/X) and US exchange rate (V/X) in equilibrium. The diagrams show the intersection points where the curves representing the world market and US market are balanced, indicating the equilibrium interest rate (r) and exchange rates (W/X, V/X).

Key points:
- The world market is represented by the curve W/X (World).
- The US market is represented by the curve V/X (US).
- The intersection of these curves determines the equilibrium interest rate (r) and exchange rates (W/X, V/X).
- The equilibrium interest rate (r) and exchange rates (W/X, V/X) are indicated by the points where the curves intersect.

Equilibrium conditions:
- The equilibrium interest rate (r) is determined where the world market and US market curves intersect.
- The equilibrium exchange rates (W/X, V/X) are determined at the intersection points.

Additional notes:
- The diagrams are labeled with the parameters g and δθ, which might represent specific economic variables or constants in the model.
A shock to $\delta$ (Asian and Russian crises)

Panel C: Interest Rate

Panel B: Net Foreign Assets/Output

US NFA and world interest rates following a collapse in $\delta$ in the rest of the world
Investment and FDI
Investment and FDI

- Investment: plant new trees. Can obtain investment slumps following a collapse in $\delta$
Extensions

- Investment and FDI
  - Investment: plant new trees. Can obtain investment slumps following a collapse in $\delta$
  - FDI: foreign investors (US) can invest in local trees, but bring their high $\delta$
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  - Investment: plant new trees. Can obtain investment slumps following a collapse in $\delta$
  - FDI: foreign investors (US) can invest in local trees, but bring their high $\delta$
    - FDI from US to R
    - largely financed by savings from R
    - FDI generates intermediation rents.
    - These rents allow for larger external deficits
Extensions

- Investment and FDI
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  - FDI: foreign investors (US) can invest in local trees, but bring their high $\delta$

- Exchange Rates:
Extensions

- **Investment and FDI**
  - **Investment:** plant new trees. Can obtain investment slumps following a collapse in $\delta$.
  - **FDI:** foreign investors (US) can invest in local trees, but bring their high $\delta$.

- **Exchange Rates:**
  - Mostly a side show.
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- Short run appreciation (relative demand)
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- Reversals
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- **Reversals**

- **Fiscal deficits, demographics....**