International Capital Flows Exchange Rates And

Essays on International Capital Flows, Exchange Rates, and Monetary PolicyAnn Arbor, Mich. : University Microfilms InternationalManaging Capital Flows and Exchange RatesPerspectives from the Pacific BasinCambridge University Press

The dramatic growth of international capital flow has provided unprecedented opportunities and risks in emerging markets. This book is the result of a conference exploring this phenomenon, sponsored by the Federal Reserve Bank of Dallas. The issues explored include direct versus portfolio investment; exchange rates and economic growth; and optimal exchange rate policy for stabilizing inflation in developing countries. It concludes with a panel discussion on central bank coordination in the midst of exchange rate instability.

This paper reviews recent experience with international capital flows in Latin America, and discusses the policy issues that surround them. The paper is predicated on three basic premises. Capital flows to the region are an important source of macroeconomic disturbance. Also, capital flows are very volatile. Large fluctuations in these flows are due in substantial part to factors external to Latin America. In addition, the fluctuations require a policy response. Policy should respond to sudden inflows or outflows of capital.

Essays on International Capital Flows, Exchange Rates, and Monetary Policy

Currencies, Capital Flows and Crises

Essays on Exchange Rate Determination and International Capital Flows in Emerging Economies

International Capital Movements and Foreign Exchange Markets

Studies in East Asian Economies

Exchange Rate Regimes and Macroeconomic Management in Asia

Foreign exchange rates and capital movements are expected to be closely related to each other as international capital markets become more and more integrated. To account for this fact we construct an index of real effective exchange rates as a weighted average of cross-country asset price ratios. The empirical analysis reveals that a country's real financial effective exchange rate is cointegrated with net foreign holdings of its assets. Comparing the empirical performance of the new index with a standard effective exchange rate deflated by goods prices we find that only the former exhibits an influence on the international flow of capital.

This volume analyzes Asia's postcrisis experience with using monetary policy to manage the resurgence in capital inflows postcrisis. It also examines the theoretical and policy issues associated with international capital flows, the increasing degree of integration of financial markets and exchange rates for emerging Asian economies more generally.

The focus is on external sector developments, and the topics deal with balance of payments conditions, exchange rate policies and regimes, international competitiveness, international capital flows, foreign trade, and other matters related to the integration of transition economies into the world economy."--BOOK JACKET.

Monetary Policy, Capital Flows and Exchange Rates

Balance of Payments, Exchange Rates, and Competitiveness in Transition Economies

The Integration of World Capital Markets

Proceedings of a Conference Federal Reserve Bank of Dallas Dallas, Texas September 14 – 15, 1995

Managing Capital Flows and Exchange Rates

We show that “preemptive” capital flow management measures (CFM) can reduce emerging markets and developing countries’ (EMDE) external finance premia during risk-off shocks, especially for vulnerable countries. Using a panel dataset of 56 EMDEs during 1996–2020 at monthly frequency, we document that countries with preemptive policies in place during the five year window before risk-off shocks experienced relatively lower external finance premia and exchange rate volatility during the shock compared to countries which did not have such preemptive policies in place. We use the episodes of Taper Tantrum and COVID-19 as risk-off shocks. Our identification relies on a difference-in-differences methodology with country fixed effects where preemptive policies are ex-ante by construction and cannot be put in place as a response to the shock ex-post. We control the effects of other policies, such as monetary policy, foreign exchange interventions (FXI), easing of inflow CFMs and tightening of outflow CFMs that are used in response to the risk-off shocks. By reducing the impact of risk-off shocks on countries’ funding costs and exchange rate volatility, preemptive policies enable countries’ continued access to international capital markets during troubled times.

The primary message of the contributors--economists at universities, international organizations, and banks around the world--is that the integration of emerging economies into the global financial system poses much larger policy challenges that had previously been anticipated. They point out that as the number of potential targets for investment grows, now 31, there is an increased probability of financial crises in developing countries that have become reliant on volatile capital flows, and that a crisis in one country increases the probability of a crisis in others. c. Book News Inc.

This volume explores East Asia's macroeconomic experience in the 1980s and the economic impact of East Asia's growth on the rest of the world. The authors explore the causes of capital flows, changes in trade balances, and exchange rate fluctuations in East Asia and their effects on other countries. These fourteen papers are organized around four themes: the overall determinants of growth and trading relations in the East Asian region; monetary policies in relation to capital controls and capital accounts; the impact of exchange rate behavior on industrial structure; and the potential for greater regional integration. The contributors examine interactions among exchange rate movements, trade balances, and capital flows; how government monetary policy affects capital flows; the effect of exchange rates on industrial structure, inventories, and prices; and the extent of regional integration in East Asia.

A Post Keynesian Analysis of Exchange Rate Determination

Savings, Exchange Rates, and Capital Flows

International Capital Markets

International Capital Flow Pressures

International Capital Flows

Capital Mobility, Exchange Rates, and Economic Crises

We study the effect of foreign exchange intervention on the exchange rate relying on an instrumental-variables panel approach. We find robust evidence that intervention affects the level of the exchange rate in an economically meaningful way. A purchase of foreign currency of 1 percentage point of GDP causes a depreciation of the nominal and real exchange rates in the ranges of [1.7-2.0] percent and [1.4-1.7] percent respectively. The effects are found to be quite persistent. The paper also explores possible asymmetric effects, and whether effectiveness depends on the depth of domestic financial markets.

Breaking from conventional wisdom, this book provides an explanation of exchange rates based on the premise that it is financial capital flows and not international trade that represents the driving force behind currency movements. John T. Harvey combines analyses rooted in the scholarly traditions of John Maynard Keynes and Thorstein Veblen with that of modern psychology to produce a set of new theories to explain international monetary economics, including not only exchange rates but also world financial crises. In the book, the traditional approach is reviewed and critiqued and the alternative is then built by studying the psychology of the market and balance of payments questions. The central model has at its core Keynes' analysis of the macroeconomy and it assumes neither full employment nor balanced trade over the short or long run. Market participants' mental model, which they use to forecast future exchange rate movements, is specified and integrated into the explanation. A separate but related discussion of currency crises shows that three distinct tension points emerge in booming economies, any one of which can break and signal the collapse. Each of the models is compared to post-Bretton Woods history and the reader is shown exactly how various shifts and adjustments on the graphs can explain the dollar's ups and downs and the Mexican (1994) and Asian (1987) crises.

If flexible exchange rates are not adopted, central banks should at least avoid the widespread practice of trying to sterilise the monetary effects of capital flows." "The author argues that the implementation of this plan will be a far more effective way of enhancing financial stability than controlling international capital flows, or trying to force private lenders to make new loans to countries that suffer crises."--BOOK JACKET.

International Capital Flows: Economic Impact and Policy Implications

Financing Problems of Developing Countries

A New Phase

PART I. EXCHANGE RATE MANAGEMENT AND INTERNATIONAL CAPITAL FLOWS

A Guide to International Monetary Economics

Recent Developments and Short-term Prospects

Maxwell Fry was known internationally for his research into international and domestic financial issues. This book constitutes a tribute to his pioneering work in so many areas, and draws together contributions from a range of academic and policy-making colleagues who were fortunate enough to experience the depth of knowledge and insights which Maxwell demonstrated.

This work by Visser (money, banking, and international economics, Free U., Amsterdam), which is aimed at advanced students as well as professionals, explains the theories behind how exchange rates are determined since the collapse of the Bretton Woods system in 1973. Changes in the updated second edition include an expanded treatment of international capital movements, an analysis of the East Asian crisis within the context of the Tobin tax, and the pros and cons of the recent rise to prominence of currency boards. Annotation copyrighted by Book News Inc., Portland, OR

Managing Capital Flows provides analyses that can help policymakers develop a framework for managing capital flows that is consistent with prudent macroeconomic and financial sector stability. While capital inflows can provide emerging market economies with invaluable benefits in pursuing economic development and growth, they can also pose serious policy challenges for macroeconomic management and financial sector supervision. The expert contributors cover a wide range of issues related to managing capital flows and analyze the experience of emerging Asian economies in dealing with surges in capital inflows. They also discuss possible policy measures to manage capital flows while remaining consistent with the goals of macroeconomic and financial sector stability. Building on this analysis, the book presents options for workable national policies and regional policy cooperation, particularly in exchange rate management. Containing chapters that bring in international experiences relevant to Asia and other emerging market economies, this insightful book will appeal to policymakers in governments and financial institutions, as well as public and private finance experts. It will also be of great interest to advanced students and academic researchers in finance.

Managing Capital Flows

Capital Flows and Long-Term Equilibrium Real Exchange Rates in Chile

Unveiling the Effects of Foreign Exchange Intervention

Evaluating Some Proposals for Reform

What Hurts Most?

The Search for a Framework

This paper discusses the extent to which national capital markets have become linked, and identifies several of the more important

consequences of that increased degree of integration. Alternative approaches to the measurement of capital market integration are reviewed, including deviations from the law of one price, differences between actual and optimally diversified portfolios, correlations between domestic investment and domestic saving, and cross-country links in consumption behavior. Two recent episodes of large-scale international capital flows—namely, the turmoil in the European Monetary System in the fall of 1992, and the surge of capital inflows into Latin America during the last three years—are examined for insights into the workings of today's global capital market. Finally, the paper offers some concluding remarks on the future development of international capital markets, on exchange rate management, on alternative approaches to living with larger and more influential financial markets, and on the financing of investment in the formerly centrally planned economies.

Recent changes in technology, along with the opening up of many regions previously closed to investment, have led to explosive growth in the international movement of capital. Flows from foreign direct investment and debt and equity financing can bring countries substantial gains by augmenting local savings and by improving technology and incentives. Investing companies acquire market access, lower cost inputs, and opportunities for profitable introductions of production methods in the countries where they invest. But, as was underscored recently by the economic and financial crises in several Asian countries, capital flows can also bring risks. Although there is no simple explanation of the currency crisis in Asia, it is clear that fixed exchange rates and chronic deficits increased the likelihood of a breakdown. Similarly, during the 1970s, the United States and other industrial countries loaned OPEC surpluses to borrowers in Latin America. But when the U.S. Federal Reserve raised interest rates to control soaring inflation, the result was a widespread debt moratorium in Latin America as many countries throughout the region struggled to pay the high interest on their foreign loans. International Capital Flows contains recent work by eminent scholars and practitioners on the experience of capital flows to Latin America, Asia, and eastern Europe. These papers discuss the role of banks, equity markets, and foreign direct investment in international capital flows, and the risks that investors and others face with these transactions. By focusing on capital flows' productivity and determinants, and the policy issues they raise, this collection is a valuable resource for economists, policymakers, and financial market participants.

Many emerging market economies have relied on foreign exchange intervention (FXI) in response to gross capital inflows. In this paper, we study whether FXI has been an effective tool to dampen the effects of these inflows on the exchange rate. To deal with endogeneity issues, we look at the response of different countries to plausibly exogenous gross inflows, and explore the cross country variation of FXI and exchange rate responses. Consistent with the portfolio balance channel, we find that larger FXI leads to less exchange rate appreciation in response to gross inflows.

Macroeconomic Linkage

Exchange Rate, Equity Prices and Capital Flows

Essays on International Capital Flows, Remittances and Exchange Rate Regimes

Preemptive Policies and Risk-Off Shocks in Emerging Markets

Exchange Rate Volatility and Misalignment

The Theory of Forward Exchange, and Capital Flows Under Crawling Exchange Rates

This paper documents trends in movement and composition of capital flows into India in a comparative perspective, examines the impact of these flows upon key macroeconomic variables in the economy, and dwells on implications for economic policy. We find that an inflow of foreign capital results in a real appreciation and has a significant impact on domestic money supply. During a capital surge, these effects have been countered through intervention and sterilization. The paper concludes with a discussion on the costs of these policies in the event of a heavy inflow of foreign capital into India.

The essays in this volume examine the theoretical and policy issues associated with international capital flows and exchange rates for emerging markets in the Pacific Basin region. Emerging market countries in both Asia and Latin America offer a wide variety of examples for the comparative study of the implications of international capital flow surges and appropriate policy responses. The essays address four broad issues. First, they investigate the determinants of international capital flows, particularly the relative role of domestic and external factors in driving capital flows. Second, they inquire how predictable and contagious capital flow reversals and exchange rate crises are. Third, they explore what the domestic economic effects of capital inflows on emerging economies have been, and finally seek to suggest what are the appropriate responses by policymakers to capital inflow surges.

With many emerging market currencies tied to the U.S. dollar either implicitly or explicitly, movements in the exchange values of the currencies of major countries have the potential to influence the competitive position of many developing countries. According to some analysts, establishing target bands to reduce the variability of the G-3 currencies would limit those destabilizing shocks emanating from abroad. This paper examines the argument for such a target zone strictly from an emerging market perspective. Given that sterilized intervention by industrial economies tends to be ineffective and that policy makers show no appetite to return to the controls on international capital flows that helped keep exchange rates stable over the Bretton Woods era, a commitment to damping G-3 exchange rate fluctuations requires a willingness on the part of G-3 authorities to use domestic monetary policy to that end. Under a system of target zones, then, relative prices for emerging market economies may become more stable, but debt-servicing costs may become less predictable. We use a simple trade model to show that the resulting consequences for welfare are ambiguous. Our empirical work supplements the traditional literature on North-South links by examining the importance of the volatilities of G-3 exchange-rates, and U.S. interest rate and consumption on capital flows and economic growth in developing countries over the past thirty years.

Exchange Rates, Capital Flows, and Monetary Policy in a Changing World Economy

Macroprudential Regulation of International Finance

Perspectives from the Pacific Basin

INTERNATIONAL CAPITAL MARKETS

Reconciling Capital Mobility and Economic Stability

Capital Mobility and Exchange Market Intervention in Developing Countries

This paper presents a new measure of capital flow pressures in the form of a recast Exchange Market Pressure index. The measure captures pressures that materialize in actual international capital flows as well as pressures that result in exchange rate adjustments. The formulation is theory-based, relying on balance of payments equilibrium conditions and international asset portfolio considerations. Based on the modified exchange market pressure index, the paper also proposes the Global Risk Response Index, which reflects the country-specific sensitivity of capital flow pressures to measures of global risk aversion. For a large sample of countries over time, we demonstrate time variation in the effects of global risk on exchange market pressures, the evolving importance of the global factor across types of countries, and the changing risk-on or risk-off status of currencies.

This paper develops a new technique for measuring changes in the degree of capital mobility confronting a developing country that has restrictions on capital flows and official ceilings on domestic interest rates. Because such official controls rule out the use of traditional interest rate parity conditions to measure changes in the degree of capital mobility, the analysis first examines an intertemporal model of an open economy. This model describes the linkages between the cost of undertaking disguised capital flows, the current account, capital controls, domestic and external financial market conditions, and the authorities' foreign exchange market interventions. The model suggests a means of measuring changes in the cost of undertaking disguised capital flows, based on the past history of differentials between external interest rates (adjusted for exchange rate changes) and domestic ceiling interest rates, provided that the authorities' foreign exchange market activities are incorporated into the analysis. Parameter estimates for Korea, Mexico, and the Philippines indicate that the real cost of undertaking disguised capital flows declined on average by nearly 70 percent between the early 1970s and the late 1980s.

Recent events, such as capital flow reversals and banking sector crises, have shaken faith in the widely held belief in the benefits of greater financial integration and financial deepening, which are typical in advanced economies. This book shows that em

A Report to the Ministers and Governors

Capital Flows, Exchange Rates and Monetary Policy

Capital Flows and Long-term Equilibrium Real Exchange Rates in Chile

The Macroeconomics of Capital Flows to Latin America

Real Financial Market Exchange Rates and Capital Flows

Capital Flows and Their Macroeconomic Effects in India

We develop an equilibrium model in which exchange rates, stock prices and capital flows are jointly determined under incomplete forex risk trading. Incomplete hedging of forex risk, documented for U.S. global mutual funds, has three important implications: 1) exchange rates are almost as volatile as equity prices when the forex liquidity supply is not infinitely price elastic; 2) higher returns in the home equity market relative to the foreign equity market are associated with a home currency depreciation; 3) net equity flows into the foreign market are positively correlated with a foreign currency appreciation. The model predictions are strongly supported at daily, monthly and quarterly frequencies for 17 OECD countries vis- ...-vis the U.S. Moreover, correlations are strongest after 1990 and for countries with higher market capitalization relative to GDP, suggesting that the observed exchange rate dynamics is indeed related to equity market development.

In this paper, we analyze several proposals for reducing the volatility and/or misalignment of key-currency exchange rates. The proposals examined are a system of target zones, the imposition of controls or taxes on international capital flows, and a strengthening of international coordination over economic policies. We also review key characteristics of the behavior of major-currency exchange rates over the period of floating rates and examine the various criteria or standards for drawing inferences about excess volatility and misalignment. In evaluating exchange rate volatility, attention is directed toward the influence of the exchange rate regime, to the behavior of fundamentals, to the volatility of both goods prices and other asset prices, to the costs of exchange rate volatility, and to the nature of shocks facing the economy. Turning to misalignment, we examine the strengths and weaknesses of the purchasing-power-parity approach, of the underlying balance approach, and of the sustainability approach. We argue that inferences about excess exchange rate volatility and misalignment are subject to wide margins of error and that the exchange rate experience of the past 15 years is subject to multiple interpretations.

"This book presents five theoretical and empirical studies on growth, capital flows, exchange rates and monetary policy. The empirical parts of three of the studies use data from the ASEAN-4 countries of Indonesia, Malaysia, Philippines, Thailand, with the remaining two studies using data on China."--Preface.

Exchange Rate Theories, Systems and Policies

Models for Multilateral Exchange Rate Determination and International Capital Flows with Implications for Pegging of Currencies of LDCS for Growth

Experience and Policy Issues

Can Foreign Exchange Intervention Stem Exchange Rate Pressures from Global Capital Flow Shocks?

Essays in Memory of Maxwell Fry

Capital Flows Without Crisis?

Diploma Thesis from the year 2000 in the subject Economics - Finance, grade: 1, Christian-Albrechts-University of Kiel, language: English, abstract: This paper deals with three highly controversial aspects in the international finance literature: the degree of international financial integration, the economic impact of capital mobility, and the potential role of capital controls in the emerging international financial architecture. Regarding the first aspect, many observers have been influenced by the recent hype about “globalisation” and in fact take it for granted that capital markets have become almost fully integrated into a world financial marketplace. This paper, reviews evidence that challenges this conventional wisdom, though confirming that the degree of international financial integration is rising. With respect to the second aspect, it is demonstrated that there are circumstances under which the free flow of international capital could negatively impact upon economic performance and/or otherwise welfare-enhancing domestic policies. This finding conflicts with traditional theory and provides an economic rationale for the judicious introduction of capital controls. With this assertion in mind, the final aspect, the role of capital controls, is investigated. The specific question explored is how far restrictions on international capital flows are able to avert a costly economic imbalance arising from fluctuations in the balance of payments. Although the international consensus seems to have shifted in recent years towards promoting Chilean-style capital controls as a potential new building block in the international financial landscape, this paper cautions against such a generalisation of the Chilean experience. Rather, a review of the empirical literature suggests that much of Chile‘s economic success story in the last decade can be explained by factors other than its control regime. The rising degree of international financial integration enhances the need for small countries to resolve their dilemma of being dependent on external funding and, at the same time, most vulnerable to sudden reversals of international capital flows. Yet, simple solutions of how to counterbalance the potential threats of capital mobility in a second-best equilibrium, are not found to be easily forthcoming. In particular, this paper argues that capital controls are no panacea – even less so, if they delay necessary macro- and microeconomic reforms.

A Panel Approach

G-3 Exchange Rate Or Interest Rate Volatility

Essays on the Real Effective Financial Exchange Rates and International Capital Flows

Capital Flows in Latin America