Capital Flows, Investment, and Exchange Rates

We demonstrate empirically that not all capital flows influence exchange rates equally: Capital flows induced by foreign investors’ stock market transactions have both an economically significant and a permanent impact on exchange rates, whereas capital flows induced by foreign investors’ transactions in government bond markets do not. We relate these differences in the price impact of capital flows to differences in the amounts of private information conveyed by these flows. Our empirical findings are based on novel, daily-frequency datasets on prices and quantities of all transactions of foreign investors in the stock, bond, and onshore FX markets of Thailand.

International Capital Movements and Foreign Exchange Markets

Liberalised Capital Accounts and Volatility of Capital Flows and Foreign Exchange Rates

The interrelated issues analyzed in this book are as follows. With the integration of Europe, there are free movements in goods, services, short and long term capital, and direct investment. The German mark is the key currency in Europe and its value will affect the equilibrium bilateral exchange rates of the other currencies in the European Union. It is important to examine the following issues. What have been the fundamental determinants of the real value of the mark since the period of floating? What will be the effects of German integration upon exchange rates? How can we measure whether currencies are misaligned or if exchange rates are at their equilibrium values? Are short term capital flows destabilizing and, if so, should they be discouraged through a transactions tax? Under what conditions does the formation of a regional trading bloc help or hinder the liberalization of world trade? What are the determinants of foreign direct investment made by

Exchange Rate, Monetary and Financial Issues and Policies in Asia

International Capital Movements

This timely book examines how the countries of East Asia coped with the vast pool of international capital that flowed into the region during the early 1990s. East Asia appeared to be doing well. But, as this book was in preparation in 1997, a currency crisis sent capital fleeing and catapulted the East Asian economies into turmoil. Country-specific updates describe events since July 1997, how government authorities addressed the crisis, and what lessons can be learned.

International Capital Flow Pressures

Informe del Fondo Monetario Internacional sobre los mercados de capitales donde se examinan las implicaciones del crecimiento e integración de dichos mercados, así como las implicaciones en los sistemas financieros internacionales.

World Economic and Financial Surveys, 1993

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.

Current Issues in International Monetary Economics

A decade has passed since the Asian crisis of 1997Co1998 which decimated many of the regional economies. While the crisis itself led to severe economic and political consequences, its primary cause was an inappropriate mix of policies, as regional economies attempted to simultaneously maintain fairly rigid exchange rates (soft US dollar pegs) and monetary policy autonomy in the presence of large-scale capital outflows. The chapters in this volume focus on selected exchange rate, monetary and financial issues and policies that are of contemporary relevance and importance to Asia, including choice of exchange rate regimes, causes and consequences of reserve accumulation,
international capital flows, macroeconomic synchronization, and regional monetary and financial cooperation.

**The Globalization of Markets**

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 emerging economies have often weathered the storm best despite the supposed burden of ‘weak institutions’. It demonstrates that a better policy framework requires reliable indicators of vulnerability to financial instability, as well as improved policy tools and automatic stabilizers that anticipate and limit the vulnerabilities to financial crises.

**Currencies, Capital Flows and Crises**

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.

**International Capital Flows, Exchange Rate Determination and Persistent Current-account Imbalances**

**Macroprudential Regulation of International Finance**

This paper deals with some of the most important aspects of Latin America's experience with capital flows during the last twenty-five years. The paper begins with a historical analysis. I then deal with the sequencing of reform and discuss issues related to the relationship between capital flows, real exchange rates, and international competitiveness. I next concentrate on the role of capital controls as a device for isolating emerging economies from the volatility of international capital markets. I begin by reviewing the policy issues and the current debate on the subject. I then present an empirical analysis of Chile's recent experiences with capital controls and make some comparisons to the recent experiences of Columbia. The analysis of the Chilean experience is particularly important since its practice of imposing reserves requirements on capital inflows has been praised by a number of analysts, including senior staff of the multilateral institutions, as an effective and efficient way of reducing the vulnerability associated with capital flows volatility. The results obtained suggest that capital controls in Chile have had mixed results: while they have allowed the Central Bank to have a greater degree of control over short term interest rates, they have failed in avoiding real exchange rate appreciation. The paper ends with some reflections, based on recent Latin American historical episodes, on the role of banks in intermediating capital inflows and on financial crises.
Exchange Rates and International Capital Flows

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.

Coping with International Capital Flows

International investors poured vast sums of money into East Asian and Latin American countries during the mid-1990s, when the emerging market boom was at its peak. Then Thailand stumbled and panic seized the markets, and boom gave way to bust. Investors suffered large financial losses, while Asian countries suddenly experienced large capital outflows and the macroeconomic pressures these wrought plunged countries that had been growing rapidly (“miraculously”) into crisis. Much the same had happened in Latin America when the debt crisis broke in 1982. This book investigates what can be done to make the international capital market a constructive force in promoting development in emerging markets. John Williamson concludes that the problem of cyclicality that has undermined the value of international borrowing cannot be tackled just, or even mainly, from the supply side, but will require actions on the part of both creditors and debtors.

Volatile Capital Flows

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.

European Monetary Union and International Capital Markets

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.

The Integration of World Capital Markets

International Capital Markets: Exchange rate management and international capital flows; v. 2: Systemic issues in international finance


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

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.

Capital Flows, Real Exchange Rates, and Capital Controls

Curbing The Boom-Bust Cycle

This paper examines the implications of the growth and integration of international capital markets for the management of exchange rates, with particular attention to the inferences that can be drawn from the currency turmoil that shook the European Monetary System (EMS) last fall and winter. The resources available to the private sector for taking positions in the forex market are now much larger than even those of the Group of Ten central banks. When private markets, led by the increasing financial muscle of institutional investors, reach the concerted view (rightly or wrongly) that the risk/return outlook for a particular currency has deteriorated significantly, the defending
central bank could be faced with a run that could easily amount to, say, $100–200 billion or more within a week. The range of private market participants involved in last fall’s crisis in European currency markets was broad—encompassing banks, securities houses, institutional investors, hedge funds, and corporations. However that wide participation explains in part why the funds that flooded into central banks were so massive.

The New Architecture of the International Monetary System

International Capital Flows

Coping with Capital Flows in East Asia

Private capital flows to developing countries have increased dramatically. This book identifies key concerns about the sustainability and volatility of these flows, and makes a number of recommendations for national macroeconomics management, including crisis prevention measures. In addition there is an innovative proposal for the orderly workout of sovereign debt

Managing Capital Flows

Integrating transition economies into the global commercial and trade market system is a prolonged and risky process. This book is a collection of studies dealing with the different issues related to the liberalization of external relations in economies moving from a socialist to a market-based system 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, trade, and other matters related to the integration of transition economies into the world economy. An understanding of the principles involved and of the experiences of both transition and advanced economies during this process is crucial to ensure its ultimate success. Written by internationally recognized scholars, the chapters cover these issues in a systematic manner. The first section treats current account developments, capital flows, and exchange rate policies in transition countries, the second section deals with specific issues related to international trade, and the final section consists of six specific country experiences. In this final section, a chapter dealing with the Russian Federation discusses the collapse of the ruble in August 1998.

Private Information, Capital Flows, and Exchange Rates

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.

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

**International Capital Flows: Economic Impact and Policy Implications**

International monetary economics has been an area of profound change in recent years - partly because of institutional developments, and partly because of "technical change". These changes are covered by the essays in this volume which are a blend of theory, empirics and policy analysis.

**International Capital Flows, Exchange Rates and Macroeconomic Policy**

**International Capital Markets**

**What Hurts Most?**

This paper analyzes the impact of capital inflows and exchange rate flexibility on the real exchange rate in developing countries based on panel cointegration techniques. The results show that public and private flows are associated with a real exchange rate appreciation. Among private flows, portfolio investment has the highest appreciation effect—almost seven times that of foreign direct investment or bank loans—and private transfers have the lowest effect. Using a de facto measure of exchange rate flexibility, we find that a more flexible exchange rate helps to dampen appreciation of the real exchange rate stemming from capital inflows.

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

Exchange Rates and International Capital Flows Economics This book discusses the international dimension of money, which involves conversions from one currency to another at an exchange rate. An exchange rate is nothing more than a price—that is, the price of one currency in terms of another currency—and so we can analyze it with the tools of supply and demand. Chapter Outline: How the Foreign Exchange Market Works Demand and Supply Shifts in Foreign Exchange Markets Macroeconomic Effects of Exchange Rates Exchange Rate Policies

**Studies in East Asian Economies**

First published in 1988, this study of international capital movements looks at their historical role in the financing of trade and their dramatically increased role in the world economy in recent years. It examines the current economic theory and the policy implications of these changes. Beginning with an analysis of the balance of payments, the authors go on to discuss international short-term and long-term capital movements, both historically and with reference to current events. A further chapter deals with financial deregulation and the progression during the last few years towards the integration of international capital markets. The author looks forward to two possible futures for international finance: a gradual federalisation of macro-economic behaviour on a world basis, or a move towards self-reliance and autarky. The book is based on the author's Marshall Lectures, given in the University of Cambridge. It will be of interest to those studying international and financial economies, graduate students and those involved in the formulation of policy.
INTERNATIONAL CAPITAL MARKETS

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Capital Mobility, Exchange Rates, and Economic Crises

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.

International Financial Integration

Capital Flows, Exchange Rate Flexibility, and the Real Exchange Rate

Whether free movement of international capital induces greater risk of foreign exchange rate and balance-of-payments volatility, or not, is an important question in international finance and economic policy making. The paper employs propensity score matching methodologies to estimate the impact of maintaining open capital accounts on the volatility of international capital flows and foreign exchange rates using data for 69 countries, in the sample period 1980-2011. The findings of the study suggest that maintaining an open capital account could contribute to lower foreign exchange rate volatility. It also finds that capital flow management measures may not have an effect on the volatility of short- and long-term capital flows.

Capital Flows, Exchange Rate Flexibility, and the Real Exchange Rate

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
Acces PDF International Capital Flows Exchange Rates And

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.

Controlling International Capital Flows

MODELLING FOREIGN EXCHANGE MARKETS INTERNATIONAL CAPITAL FLOWS AND EXCHANGE RATES

This paper analyzes the structural implications of EMU for international capital markets. It discusses the potential size of euro capital markets and the existing roles of European currencies in international capital markets. The paper also examines the euro's impact on international securities markets, including the role of the ECB, the evolution of EMU securities markets, and aspects of systemic risk management. The implications for wholesale and retail banking markets are also discussed, as are the broader implications of the introduction of the euro for changes in international capital flows, international portfolios, and by implication exchange rates.

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