

MINI COURSE
BANCO CENTRAL DE CHILE
November 2016

Instructor: **Pierre-Olivier Gourinchas**
University of California, Berkeley

Title: **External Adjustment, Global Imbalances and Global Safe Assets**

This mini-course reviews recent developments in the analysis of external adjustment. It begins with a review of the implications of the neoclassical paradigm for long-term capital flows, emphasizing two important shortcomings: (a) the poor predictive power of the models for the direction of long-term capital flows; and (b) the increasing importance of potentially systematic valuation effects. The first part of the course proposes models that can account for the observed patterns of net and gross capital flows. The models are organized in terms of their predictions for the autarky risk-free rate, that is, the risk-free return to capital that would be observed in the absence of cross-border financial transactions. The second part of the course reviews and summarizes recent empirical evidence on the importance of valuation effects for the dynamics of external adjustment and the sustainability of gross and net external positions. The third part of the course explores issues related to the demand and supply of safe assets and their role for global financial stability. It focuses in particular on the role of capital flows and exchange rates in propagating recessions across border in a global liquidity trap, the source of global liquidity traps and the constraints that regional safe asset issuers may face.

Readings: Aguiar, Mark, and Manuel Amador, 2011, "Growth in the Shadow of Expropriation," *The Quarterly Journal of Economics*, Vol. 126, No. 2, pp. 651–97. <http://qje.oxfordjournals.org/content/126/2/651.full.pdf>

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Gourinchas, Pierre-Olivier, and Olivier Jeanne, “Capital Flows to Developing Countries: The Allocation Puzzle,” *Review of Economic Studies*, Oct. 2013.
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<http://www.sciencedirect.com/science/article/pii/B9780444543141000100>

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