

[CH. 21] INT'L CAPITAL FLOWS

A. PRIVATE LENDING/INVESTING

① LONG-TERM

A. FDI

B. LOANS > 1 YEAR

C. PORTFOLIO

STOCKS + BOND

② SHORT-TERM

A. BONDS OR LOANS

LESS THAN 1 YEAR

B. OFFICIAL LENDING

① LOV'T TO GOV'T

② GOV'T TO PRIVATE
ORGANIZATION

③ NLO TO GOV'T (IMF)

④ NLO TO PRIVATE ORG. (WORLD BANK)

IMF

WORLD
BANK

NO INTL LENDING

WITH INTL LENDING

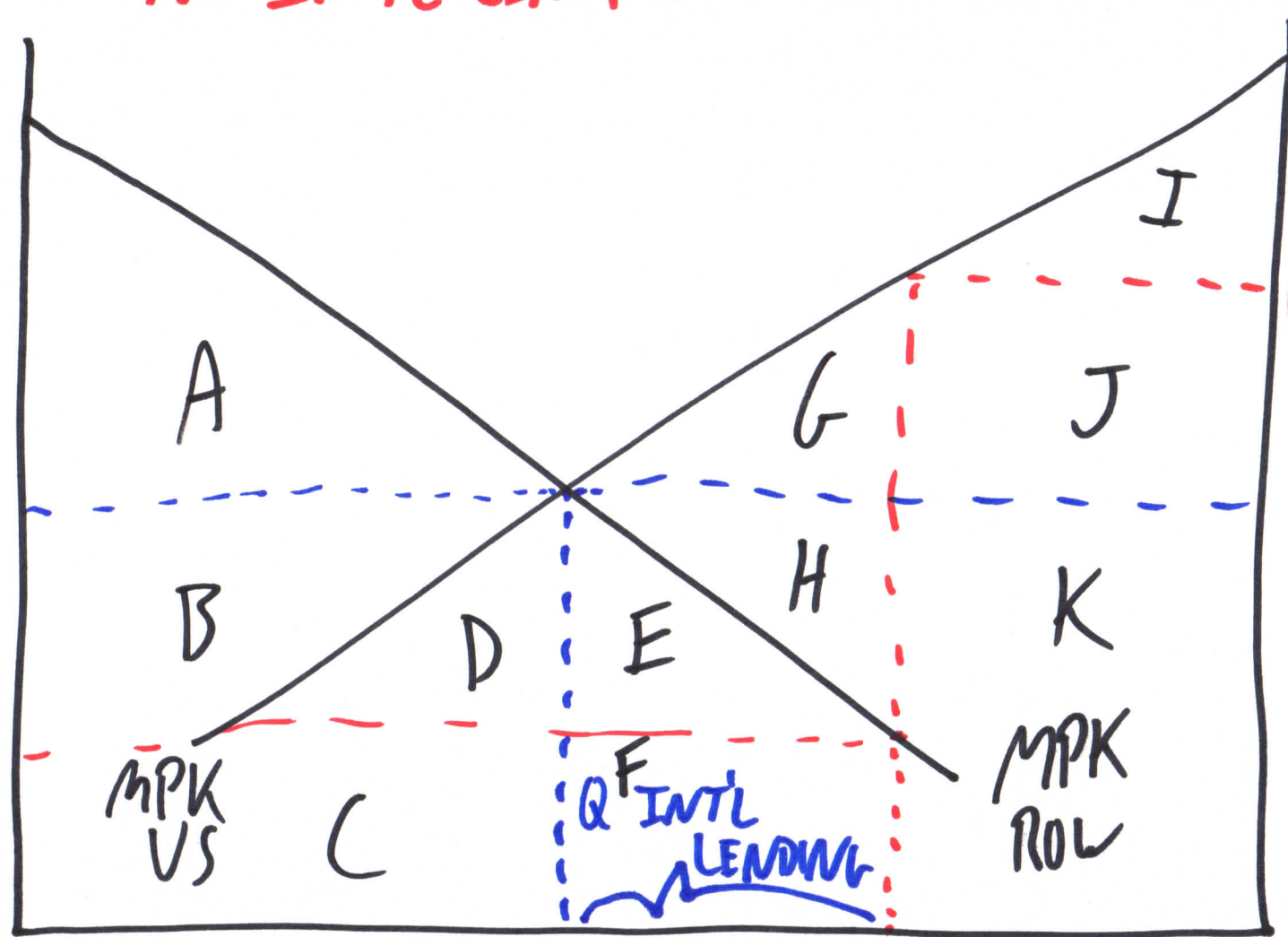
US %

ROW %

$r_{w,nil}$

$r_{row,nil}$

$r_{us,nil}$



NO INT'L LENDING

ROW LENDERS: $C + F$

ROW BORROW: $A + B + D + E$

US LENDERS: $J + K$

US BORROW: I

ROW TS: $A + B + C + D + E + F$

US TS: $I + J + K$

PROBLEMS?

CAN'T INTERFERE w/ INTEREST RATES

MPK IS UNKNOWN (HERD) $\rightarrow$ CRISIS

EX. RATE VOLATILE

INT'L LENDING

ROW L: $B + C + D + E + F + H$

ROW B: A

US L: K

US B: $G + I + J$

AFTER

$A + B + C + D + E + F + (H)$

$I + (G) + J + K$

CAUSES OF CRISIS

- ① OVERLENDING / OVERBORROWING
- ② EXOGENOUS INT'L SHOCKS + CONTAGION
- ③ EX. RATE ISSUES
"UNHOLY" TRINITY
 - ① FIXED EX. RATES
 - ② FREE CAPITAL FLOWS
 - ③ INDEPENDENT MONETARY POLICY
- ④ FICKLE LENDERS (HERDING)
- ⑤ COMBINATION OF ALL OF THE ABOVE

IMF

- RESOLVE PACKAGE
 - "BIL" LOANS
- CONDITIONALITY
 - CUT G , RAISE T
 - UNPEG EX. RATE
 - FREER CAPITAL FLOWS
+ TRADE FLOWS
- MORAL HAZARD?

REGULATION TO PREVENT CRISIS?

- CONTROL L
 - PUBLIC CRISIS LIKE GREECE
- RISK CLASSIFICATION
 - MBS
- WASHINGTON CONSENSUS
- REGULATE FOREIGN RESERVES
- PHYSICAL ASSET VS
PORTFOLIO
- INCENTIVE SCHEMES FOR
COMPENSATION