Essays on International Capital Flows and Productivities
Dissertation Abstract
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Job market paper -
A Welfare Analysis of “New Mercantilist” Foreign Asset Accumulation

Contrary to traditional neoclassical growth models, recent decades have seen a number of developing economies running sizable current account surpluses. In response to “new mercantilism” explanations of this phenomenon that relate holdings of foreign assets to higher levels of economic growth, this paper presents a theoretical model of a small open developing economy that permits a welfare analysis of mercantilist policies and importantly answers the question of whether mercantilist motives alone can explain the recent high levels of observed foreign asset holdings. Using a calibration to match the characteristics of China, the model predicts that while such policies may lead to significant welfare gains, consumers’ desires to smooth consumption generally preclude a positive Chinese current account balance under most parameterizations. Therefore, deliberate foreign asset accumulation may be welfare reducing or mercantilist motives may provide only one component of a fuller explanation.

2nd chapter -
 Tradable and Nontradable Sectoral Productivites: Exports and Convergence
(in progress)

This paper presents new empirical work using cross-country firm-level data from ORBIS to estimate productivity levels while accounting for the endogeneity of input selection using the Leinsohn-Petrin-Wooldridge methodology. Firm estimates are then classified as belonging to nontradable or tradable sectors depending on observed industry-level export-intensity. These data are then aggregated to produce a unique cross-country data set that is used to address the following questions: 1) Does tradable-sector productivity grow faster than nontradable-sector productivity? 2) Do these growth differentials correspond to exchange rates as predicted by the Harrod-Balassa-Samuelson theorem? 4) Is there cross-country convergence in tradable-sector productivity over time? 5) Do exports exert a positive influence on the growth rate of tradable-sector productivity at the macro level (estimated in a structural VAR with output, exchange rates, interest rates, and inflation)? Finally, consideration is given as to whether these relationships differ significantly between developed and developing economies (as might be explained by the existence of a global productivity frontier).

3rd chapter -
Competitive Devaluation at the Technological Frontier
(in progress)

This paper considers the welfare effects of a deliberate exchange rate devaluation by a single country on its trading partner. The paper presents a tractable dynamic open-economy macro model with an endogenously determined international rate of interest on mobile assets. Both countries produce tradable and nontradable goods using technology that converges over time to a global frontier. The model quantifies the welfare effects on both the Home and Foreign economies following the unilateral implementation of capital controls by the Foreign country that affects the real exchange rate between the two economies. I discuss whether the use of capital controls constitutes a classic “beggar-thy-neighbor” policy, consider the Home country’s optimal policy responses, and demonstrate that the optimal response depends upon the countries’ proximity to the global technological frontier.