Essays on Capital Flows, Saving and Growth Acceleration
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1 Consumption Habits, Growth Acceleration, and Capital Flows (job market paper)

This paper adds habit formation to an otherwise-standard small open economy Balassa-Samuelson model with frictions in an attempt to explain why countries generally increase saving and have a current account surplus when economic growth accelerates. With plausible parameters, the model with habits can generate an increase in saving and a current account surplus in the medium run. In contrast, the standard model without habits predicts a sharp decrease in saving and a large current account deficit. The higher saving in the model with habits also dampens the real exchange rate appreciation compared with the no-habit model, because habit-forming consumers cut the consumption of tradable goods in order to save.

2 Growth Acceleration and High Saving (in progress)

High economic growth usually leads to high saving later. This paper revisits the growth and saving nexus studied in Carroll and Weil (1994). The robustness of the Granger causality from growth to saving found in Carroll and Weil (1994) is tested using different versions of the Penn World Table and different sample periods. This paper also examines the Granger causality from growth to saving in periods of empirically defined growth accelerations. Saving increases in years within a growth acceleration episode. The general statistical dependence of saving on growth should be considered in explaining high saving in a high growth economy.

3 Economic Regimes and Regional Capital Flows: Evidence from China (in progress)

Using provincial data from China, this paper examines the pattern of capital flows in relation to the transition of economic regimes. We show that fast-growing provinces experienced less capital inflows before the large-scale market reform, contrary to the prediction of the neoclassical growth theory. As China transitioned from the central-planning economy to the market economy, the negative correlation between productivity growth and capital inflows became much less pronounced. From a regional perspective, this finding suggests domestic institutional factors play an important role in shaping the pattern of capital flows.