Essays on Growth and International Macroeconomics
Luigi Durand

1 Real Exchange Undervaluation and Growth with Credit Constraints
(job market paper)

This paper argues that depreciating the real exchange rate can be welfare improving for an economy, through the impact that an undervaluation has on the tradable sector’s amount of available internal resources; specifically, a depreciated real exchange rate lowers the wage rate, which relaxes the credit constraints of firms. Firms can then devote more funds to investment in physical capital. Higher investment leads to higher future wages, which can benefit future generations of agents. I show that foreign reserves accumulation represents a viable policy instrument to reach this outcome, and that China’s significant increase in foreign reserves could be interpreted as also stemming from a willingness to maintain the real exchange rate undervalued. On a more general level, we argue that real exchange rate undervaluation can be beneficial in the long run for example when the economy is passing through phases of high productivity growth, as was the case for China.

2 The Transmission of U.S. Monetary Policy to Emerging Markets: An Event Study Analysis

This paper analyzes the effects of U.S. monetary policy announcements during the post-crisis period, on emerging markets financial variables, using an event study type of analysis. In order to highlight interesting distinctions between countries we differentiate the sample depending on the economies’ exchange rate regime status. Overall, we find strong and statistically significant reactions of domestic financial variables and in particular we estimate that equity markets and exchange rates in flexible regime countries are more sensitive to foreign monetary shocks, while bond yields and short term rates movements move similarly in the two groups. Finally, we highlight the use of foreign exchange interventions in emerging market economies around U.S. monetary announcements by finding significant interactions between domestic financial variables and changes in international reserves.

3 Capital flows to emerging markets: What role for policy responses?
with Nicoletta Batini (in progress)

This paper argues that domestic economies can influence the extent to which they are affected by changes in global conditions. Specifically, we collect data on capital flows and policy variables from a large sample of emerging market economies and show that there is a large degree of heterogeneity in the sensitivity of cross-countries gross capital flows to global factors. We then evaluate whether this cross-country heterogeneity can be associated with different domestic policy choices, including the degree of resistance to exchange rate appreciation, the degree of sterilization of capital inflows and the ability of an economy to maintain a prudent fiscal policy. Furthermore, we highlight a potential role for measures of capital flow management such as capital controls and macroprudential policies.