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Three Essays on International Economics and Finance

Abstract

This dissertation studies the macroeconomic and social impacts of two increasingly common macroeconomic policies: restrictions on international capital mobility -- capital controls -- and so-called unconventional monetary policy -- often referred to as “quantitative easing.”

The consensus view is that capital controls can effectively lengthen the maturity composition of capital inflows and increase the independence of monetary policy but are not generally effective at reducing net inflows and influencing the real exchange rate. The first essay presents empirical evidence that although capital controls may not directly affect the long-run equilibrium level of the real exchange rate, they may enable disequilibria to persist for an extended period of time relative to the absence of controls. Allowing the speed of adjustment to vary according to the intensity of restrictions on capital flows, it is shown that the real exchange rate converges to its long-run level at significantly slower rates in countries with capital controls.

The second essay studies the social welfare implications of capital controls when controls are imperfectly binding and financial markets actively aim to bypass regulation. I consider a series of models of a small open economy featuring a “Dutch disease” externality arising from excessive capital inflows, as well as strategic interactions between a regulatory authority attempting to enforce capital controls and a financial sector attempting to evade them. The models suggest that capital controls, by internalizing externalities associated with capital inflows, can improve welfare relative to a “laissez-faire” benchmark even when these are imperfectly binding.

The third and final essay uses data from the Federal Reserve's Tri-Annual Survey of Consumer Finances (SCF) to study the distributional impacts of quantitative easing in the U.S. since the 2008-9 financial crisis. I decompose the change in the distribution of income into three key impact channels of QE policy: 1) the employment channel 2) the asset appreciation and return channel, and 3) the mortgage refinancing channel. The results suggest that while employment changes and mortgage refinancing were equalizing, these impacts were nonetheless swamped by the large dis-equalizing effects of asset appreciations.