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International macroeconomics is a field with many open research questions. In view of increasingly globalized economies it becomes more and more important to understand the international channels that influence national macroeconomic outcomes. In this context, classic issues of interest are e.g. the importance of international borrowing and lending, the behavior of trade variables and exchange rates, the consequences of sovereign governments, the explanation of international differences in per capita income and the impact of national monetary policies.

This thesis consists of three essays dealing with questions that have turned out to be difficult to answer in the past. First, what explains the characteristics of international risk sharing and trade fluctuations? Second, can foreign aid programs effectively reduce poverty and stimulate the economy in developing countries given that the recipient government is sovereign? Third, how does monetary policy influence exchange rates? We attempt to answer these questions both qualitatively and quantitatively by applying sophisticated techniques of dynamic macroeconomics, dynamic contract theory, numerical methods and time series econometrics in an international setting.

To address the first two questions, we emphasize that international economic relations are characterized by contractual agreements between sovereign countries. These agreements are limited enforceable since countries may not be willing to abide by the contracts. Enforceability problems are taken into account by dynamic incentive constraints: allocations are supportable only to the extent to which they are enforceable by some punishment threat. In the first essay, we restrict international loans to be feasible if, at any point in time, they are enforceable by the threat of an exclusion from future trade that lasts finitely many periods. Quantitative results show that limited enforceable international loans can explain the low international risk sharing found in the data. Moreover, the impact on trade fluctuations is considerable. The second essay analyzes the effectiveness of conditional foreign aid given that there is a conflict of interest between the donor and the recipient government. We restrict the conditions imposed on aid funds to be supportable only if, at any point in time, they are enforceable by the threat of a permanent aid cutoff from then onward. Quantitative results show that the effectiveness of conditional aid is high but comes at a high cost: to ensure enforceability, less democratic political regimes have to receive permanently larger aid funds.

We rely on Bayesian vector autoregressions as modern tools of econometric time series analysis and apply recently developed identification methods to empirically answer the third question: what are the effects of monetary policy on exchange rates? To identify policy shocks, one possibility is to impose recursive orderings that imply assumptions about contemporaneous responses of the variables. However, the critical point of such an identification scheme is that it is difficult to distinguish between assumptions and results. Our objective is to make a priori theorizing as explicit as possible. To do so, we identify monetary policy shocks by imposing sign restrictions on the impulse responses of selected variables that match conventional wisdom. Importantly, the design of the identification scheme leaves the question at hand agnostically open. We find that the puzzles regarding the exchange rate found in the literature are still there, however, the quantitative features are different.