# Discussion: Financial Integration and Growth in a Risky World

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- Efficient Risk Sharing

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  - Change in the "Washington Consensus"

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  - Side note: General equilibrium

# Welfare

- Welfare calculations

| | Agg. gains $g_i$ | | Risky gains $g_i^R$ | | Stoch. gains $g_i^S$ | |
|---|---|---|---|---|---|---|
| | $h$ | $f$ | $h$ | $f$ | $h$ | $f$ |
| Benchmark (Exp. 3) | 0.42 | 0.53 | 0.15 | 0.46 | 0.27 | 0.07 |
| No capital scarcity (Exp. 2) | 0.29 | 0.26 | 0.06 | −0.08 | 0.23 | 0.34 |
| Symmetric | 0.10 | 0.10 | $\simeq 0\%$ | $\simeq 0\%$ | 0.10 | 0.10 |
| Endowment | 0.70 | 0.67 | – | – | – | – |
| Riskless world (Exp. 1) | 0.29 | 0.38 | 0.29 | 0.38 | - | - |

Table 4: Welfare analysis of financial integration with CRRA utility

# Novel calculations

- Solve transition in a stochastic environment
  - Global solution methods
  - Risky steady state (versus deterministic steady state)
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- Policy function iteration

# Robustness

- Riskier economies should have higher capital (all else equal)
  - Riskier economies tends to have worse financial institutions and savings are parked in unproductive assets.

# Why does finance matter? What are our models missing?

- Hall and Jones (1999)

TABLE I
PRODUCTIVITY CALCULATIONS: RATIOS TO U. S. VALUES

| Country | $Y/L$ | Contribution from $(K/Y)^{\alpha/(1-\alpha)}$ | Contribution from $H/L$ | Contribution from $A$ |
|---|---|---|---|---|
| United States | 1.000 | 1.000 | 1.000 | 1.000 |
| Canada | 0.941 | 1.002 | 0.908 | 1.034 |
| Italy | 0.834 | 1.063 | 0.650 | 1.207 |
| West Germany | 0.818 | 1.118 | 0.802 | 0.912 |
| France | 0.818 | 1.091 | 0.666 | 1.126 |
| United Kingdom | 0.727 | 0.891 | 0.808 | 1.011 |
| Hong Kong | 0.608 | 0.741 | 0.735 | 1.115 |
| Singapore | 0.606 | 1.031 | 0.545 | 1.078 |
| Japan | 0.587 | 1.119 | 0.797 | 0.658 |
| Mexico | 0.433 | 0.868 | 0.538 | 0.926 |
| Argentina | 0.418 | 0.953 | 0.676 | 0.648 |
| U.S.S.R. | 0.417 | 1.231 | 0.724 | 0.468 |
| India | 0.086 | 0.709 | 0.454 | 0.267 |
| China | 0.060 | 0.891 | 0.632 | 0.106 |
| Kenya | 0.056 | 0.747 | 0.457 | 0.165 |
| Zaire | 0.033 | 0.499 | 0.408 | 0.160 |
| Average, 127 countries: | 0.296 | 0.853 | 0.565 | 0.516 |
| Standard deviation: | 0.268 | 0.234 | 0.168 | 0.325 |
| Correlation with $Y/L$ (logs) | 1.000 | 0.624 | 0.798 | 0.889 |
| Correlation with $A$ (logs) | 0.889 | 0.248 | 0.522 | 1.000 |

The elements of this table are the empirical counterparts to the components of equation (3), all measured

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  - Longer transitions because have to use some time to acquire human capital and this will slow capital accumulation which comes out of domestic savings.
  - Calculate these effects to be small when calibrated to developing countries.

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- Link between Finance and productivity (R&D)
  - Bring about greater convergence in A
  - Technology upgrading requires finance. This can also slow the transition.

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- Finite lives