Matteo Maggiori, Associate Professor, Stanford GSB

Opening Remarks

Saturday, August 29, 2020
International Macroeconomics and Finance

- The study of how households, government, and firms interact in an open economy

- Issues that affect the livelihood of millions of people:
  - Emergence of China as a major macroeconomic player
  - Eurozone: price adjustment, sovereign debt crisis, capital misallocation
  - U.S. as a world banker, the dollar, global imbalances, and the 2008 financial crisis
  - Trade wars: who pays the cost?
  - Brexit: good or bad for the British economy?
  - Covid: short-run sudden stops, but also long-run structural adjustment
Why this Initiative?

- Large scale empirical work has revolutionized many fields in the social sciences.
- Exciting work on important issues using new methods and data.
- Large-scale work can come with increased barriers to entry: cost of data, computing, size of teams and time to complete a project.
- The Initiative seeks to train students and share a starter kit of tools and data.
- Generous support of the Alfred P. Sloan Foundation and Stanford GSB.
- This is a great time to start research in the field!
Eurozone: Problems in Currency Unions

- The euro is one of the biggest economic and political experiments since WWII
- Predicated on real and financial integration
- Right now the focus of skeptic sentiment in Europe
- How has relative price adjustment worked out?
- How has capital been allocated within Europe?
Lack of Price Adjustment in a Currency Union

Figure IV
Good-Level RERs $q_{ij}$ for Various Countries (i) with Spain (j)

Source: Cavallo, Neiman, Rigobon (2014)
Capital (Mis-)Allocation in Southern Europe

Figure II
Evolution of MRPK and MRPL Dispersion

Source: Gopinath, Kalemli-Ozcan, Karabarbounis, Villegas-Sanchez (2017)
Speaking of Euro Skeptics... Brexit

- The unexpected outcome of the Brexit referendum was an uncertainty shock
- A protracted and uncertain negotiation with the EU
- Did the benefits promised by "leavers" materialize?
- Did uncertainty depress investment?
- Measuring uncertainty shocks with Natural Language Processing
Measuring Brexit Uncertainty and Sentiment

Panel A: Brexit risk

Panel B: Brexit sentiment

Source: Hassan, Hollander, van Lent, Tahoun (2020)
The Emergence of China in Global Financial Markets

- In the last 20 years China went from absent to a major force in world markets
- Currently the third largest creditor in the world: $2 trn NFA position
- China owns $1.1 trn of U.S. treasuries
- Chinese companies listed abroad valued at $1.8 trn
- Foreign companies exposed to China both for inputs and for sales
- Tensions between the U.S. and China are a major risk factor
China's NFA and Chinese Companies in the Cayman Islands

(a) China Net Foreign Assets

(b) Structure of Chinese Companies Listed Abroad

Source: Coppola, Maggiori, Neiman, Schreger (2020)
How Big are the Exposures to China?

(a) Exposure to China via CYM

(b) Exposure to China via Sales

Source: Coppola, Maggiori, Neiman, Schreger (2020)
U.S. as the Center of World Financial Markets

- U.S. is the ultimate issuer of safe assets, U.S. Treasuries
- Dollar is used in both asset and good markets even when U.S. not involved
- U.S. also a large provider of global liquidity: banks, but also Fed swap lines
- Some big changes since 2008:
  - Arbitrage conditions in currency markets no longer hold
  - U.S. dollar prominence has broadly increased
  - U.S. government debt and Fed balance sheet both skyrocketed
The Dollar Liquidity, CIP, and Dollar Bond Holdings

(a) Failure of Covered Interest Parity (CIP)

(b) CIP and Limits of Arbitrage

(c) Bond Holdings in EUR and USD

(d) Failure of CIP and Limits of Arbitrage

Sources: Du, Tepper, Verdelhan (2017) and Maggiori, Neiman, Schreger (2020)
Trade Wars

Who bears the cost of U.S. tariffs on Chinese goods? U.S. firms thus far

(a) Import Price Indices (Including Tariffs)  
(b) U.S. Retail Price Indices

Source: Cavallo, Gopinath, Neiman, Tang (2019)
Covid and Open Questions

- Covid shock will drive the next wave of research

- So many important issues:
  - Structural adjustment of the world economy: global value chains
  - Capital reallocations: sudden stops of capital to emerging markets
  - The fiscal union in the Eurozone
  - Mounting debt levels and financial globalization
  - Global dollar liquidity and shift to bond-based financing
Covid and Economic Uncertainty

(a) US Economic Policy Uncertainty

(b) Effect of Uncertainty on Economy

Source: Baker, Bloom, Davis, Terry (2020)
New Questions, New Methods, New Data

- International macro and finance are being deeply changed by newly available data:
  - who owns what around the world
  - prices at the good level across countries
  - who trades with whom
  - news, transcripts, metadata

- New techniques to analyze or create these data

- New answers to existing big questions; but also new questions
An exciting field at an exciting time: join us!
References


