Comments on Anton Korinek’s
`Capital Controls and Currency Wars’

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A capital control that internalizes an externality is good.
A capital control that internalizes an externality is good.

*Sans* the externality, it’s not good.
World Interest Rate

Bond Demand (i)

Bond Supply (j)

Bonds
World Interest Rate

Bond Demand ($i$)

Bond Supply ($j$)

Equilibrium Quantity

Equilibrium Price

Laissez Faire Equilibrium
World Interest Rate

Bond Demand (i)

Bond Supply (j)

Bonds
Equilibrium with National Planner
Currency War
Currency War

Figure 1
Currency War

Figure 1

J loses this.
Currency War

Figure 1

J complains.

J loses this.
J loses this.

J complains. Too bad.
Each country internalizes its own externality
Each country internalizes its own externality

Pareto Efficiency
Antecedent

Eichengreen & Sachs, 1985

*Journal of Economic History*
Recent Manifestation

Brazil Complains About Monetary Policy

Brazil's President Dilma Rousseff participates in a ceremony of announcement for new measures of the Plan "Brasil Maior" and the installation of Sector Councils for competitiveness in Brazil April 3, 2012.
Careful Catalogue
Careful Catalogue
Careful Catalogue

Generalizations

• Reserve accumulation
• Uncertain states of nature
• Real investment
Careful Catalogue

Externalities

• Learning by exporting
• Learning through employment
• Zero lower bound
Careful Catalogue

...but wait, there’s more
• Small economy
• Large economy
• Commitment problems
• Distortive controls
• Imperfect controls
Minor Comments
Minor Comments

1. Benchmark

Savers forever savers.
Borrowers forever borrowers.

*Might transversality conditions be appropriate?*
Minor Comments

2. Relatedly

*Additional cases with dynamics would allow for fleshing out Michael Klein’s “Walls vs. Gates.”*
Minor Comments

3. ‘Currency Wars’

\[ P_T = 1. \]

The exchange rate is \( P_{Ni} \).

*The `currency war’ is masked.*
Minor Comments

3. ‘Currency Wars’

More explicit:

Monopolistic competition in traded goods: $P_{Ti} \neq P_{Tj}$