



**Department of Economics**

Wyman Park Building 582  
Wyman Park Building.  
Baltimore, MD 21218  
Tel: (410) 516-7604 / Fax: (410) 516-7600

**Olivier JEANNE**

Professor

[ojeanne@jhu.edu](mailto:ojeanne@jhu.edu)

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Dear George,

I am writing to resubmit our paper “A Tractable Model of Precautionary Reserves, Net Foreign Assets, or Sovereign Wealth Funds” for the *International Economic Review*. Our paper intends to link the behavior of capital flows in a sample of growth-acceleration episodes in emerging markets to the increase of idiosyncratic risk accompanied with high growth rate. Increase of the idiosyncratic risk will increase the precautionary savings of households which could cause capital outflow from the country with high growth rate.

The referees that reviewed our original submission (**MS#25841**) raised four points. Among them, the referees “wonder about the value of deriving the closed form solution” rather than relying on a model that can be solved numerically. The referees also “wonder how well this tractable model approximates the results from a richer model of income growth and risk.” In our reply on October 30 2016, we proposed to revise our paper by adding a more complex model with overlapping generations of heterogeneous agents with a richly specified life cycle who are hit by idiosyncratic income shocks into our paper. In the new version of the paper, we added the result we calculated from such model in Section 3.2 as a robustness check for the result of the tractable model. We include the detail of the model in Appendix A.7 Model with Heterogeneous Time Preference. The model we use based on the model that recently used in Carroll et al. (2017). The model is a standard version of the class of life cycle models with stochastic income shocks going back to Carroll (1997). We showed that the properties of the tractable model

resembled those of the more complex model when the appropriate conversion factor is applied to the level of idiosyncratic risk in the two models.

We think that our revision addresses the referees' comments subject to the feasibility constraints.

Best regards,

A handwritten signature in blue ink, appearing to read "O. Jeanne".

Olivier Jeanne

A handwritten signature in black ink, appearing to read "Chris Carroll".

Chris Carroll