Rettevejledning: Economic History of Globalization

The following indicators should be mentioned and motivated.

The flow of international capital as measured by the absolute value of the current account. It is a plus if it is mentioned that this is net flows and that gross flows are larger.

The stock of foreign capital can also be mentioned, but it not much discussed in the course.

As in other markets globalization implies that the law of one price operates and in capital markets that can be measured by interest rate parity or more vaguely that interest rate differentials are stationary. The well read student should mention that interest rate differences must be calculated on assets which are equally risky or that risk has been controlled for.

Returns in stock markets across nations should also converge, but historical evidence indicate persistent differences which can be discussed. A discussion on ' home bias' indicates that the student is well read.

Using these indicators the students typically discuss three or four phases globalization and de-globalization.

The 1870 to 1914 period, where exchange rate risks were small and restrictions on capital mobility virtually absent. As a consequence one would discover a convergence on the rate of returns on assets which is also evident in the data. The net flows of capital were quite high as measured by the absolute value of current account around 3-7 per cent of GDP.

The Interwar period can be treated as one era but is in fact composed of the 1920's which saw a return to pre-1914 conditions and then the Great Depression and World War 2 with disintegrating capital markets and a sharp flow in international capital mobility. Interest rate differentials diverged. US replaced England as a major creditor

The period after 1945 contains the Bretton Woods monetary regime and the restrictions on capital mobility entertained by that system implied continuing high interest rate differentials and relatively low capital mobility, at least compared to the pre 1914 period and the decades after 1980. The well read student might mention the Obstfeld-Taylor tri-lemma in explaining why capital mobility was restricted in the Bretton Woods period.

It is not until after the end of the Bretton Woods system that capital markets displayed signs of globalization similar to the pre- 1914 period.

Normally we describe the long term evolution of capital market globalization as U-shaped. High degree of integration of capital markets at the end of the 19th century and up till the First World War and again after 1980 but low integration in-between these two periods, although the 1920s saw a short spell of globalization.

The geographical structure of capital flows has changed in that poor nations no more attracts much foreign capital. Most of the capital flows occur among the rich economies and from rich to nations in the middle range of the income distribution. This partly reflects the change in the nature of foreign investment from portfolio investment to direct investments by multinationals. A paradox worth dwelling on is the fact a nations now, unlike before 1914, are both exporting and importing capital.

The questions refer mainly to Chapters 3 and 8 in M. D. Bordo et als (eds) *Globalization in Historical Perspective*, University of Chicago Press, 2003.