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**Doctoral Course on International Portfolio Allocation and International Capital Flows (Trinity College Dublin, November 2013)**

## **Overview**

International capital flows and the resulting international investment positions have risen sharply over the past few decades. These flows and positions both affect and are affected by countries' policies. With the backdrop of countries grappling with trying to understand the nature of capital flows and investors attempting to navigate various markets, this course will address topics in international portfolio allocation, international capital flows, and cross-border returns differentials.

The course will begin with two sections on international portfolio allocation that will address the topic from a global  $n$  investor country by  $m$  destination country perspective as well as a more narrow U.S. investor perspective. The focus will be primarily on international equity investment, but international bond investment will be discussed as well. Topics covered in the initial two sections include cross-listings, corporate governance, and insider ownership. The middle two sections of the course will be on international capital flows: extreme capital flow episodes, the determinants of capital flows, and the roles of capital controls and reserve accumulation. The final two sections will cover returns differentials, exorbitant privilege, and global imbalances.

An assignment will be due by [date] at 5pm.

## **International Portfolio Allocation**

### Security-Level Studies

Ammer, J., S. Holland, D. Smith, and F. Warnock, [2012](#). U.S. International Equity Investment. *Journal of Accounting Research* 50(5): 1109-1139. [Dataset on cross-listing and float](#).

Leuz, C., K. Lins, and F. Warnock, [2009](#). Do Foreigners Invest Less in Poorly Governed Firms? *Review of Financial Studies* 22(8): 3245-3285.

Cai, F., and F. Warnock, [2012](#). Foreign Exposure through Domestic Equities. *Finance Research Letters* 9: 8-20.

Edison, H., and F. Warnock, [2004](#). U.S. investors' emerging market equity portfolios: a security-level analysis. *Review of Economics and Statistics* 84(3): 691-704.

Alexandra M. Tabova, Carol Bertaut, Vivian Wong (2013 draft) [The Replacement of Safe Assets in the U.S. Financial Bond Portfolio and Implications for the U.S. Financial Bond Home Bias](#)

### Country-Level Studies

Holland, Sara, Sergei Sarkissian, Michael Schill, and Francis Warnock, 2013 draft. On the determinants of international equity investment.

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- Yohei Okawa and Eric Van Wincoop (2012), "Gravity in International Finance," *Journal of International Economics*.
- van Wincoop, E., and F. Warnock, [2010](#). Is home bias in assets related to home bias in goods? *Journal of International Money and Finance* 29: 1108-1123.
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- Burger, J., F. Warnock, and [V. Warnock](#), [2012](#). Emerging local currency bond markets. *Financial Analysts Journal* 68(4): 73-93.
- Burger, J., and F. Warnock, [2007](#). Foreign participation in local currency bond markets. *Review of Financial Economics* 16: 291-304.
- Fidora, M., M. Fratzscher, and C. Thimann, 2007, Home Bias in Global Bond and Equity Markets: The Role of Real Exchange Rate Volatility, *Journal of International Money and Finance* 26, 631-655.
- Karolyi, A. and R. Stulz, 2003, Are assets priced locally or globally?, in G. Constantinides, M. Harris and R. Stulz, eds.: *The Handbook of the Economics of Finance*, North-Holland Publishers, New York, NY.

#### Cross-Listing (an aside)

- Sarkissian, S., and M. Schill. 2004. The Overseas Listing Decision: New Evidence of Proximity Preference. *Review of Financial Studies* 17, 769–809.
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## **International Capital Flows**

### Investors' Behavior

- Curcuru, S., C. Thomas, F. Warnock, and J. Wongswan, [2011](#). U.S. international equity investment and past and prospective returns. *American Economic Review* 101(7): 3440-3455.

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- Brennan, Michael J., and H. Henry Cao. 1997. "International Portfolio Investment Flows." *Journal of Finance*, 52: 1851-1880.
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- Hau, H., and H. Rey, 2004. Can Portfolio Rebalancing Explain the Dynamics of Equity Returns, Equity Flows, and Exchange Rates? *American Economic Review* 96(2): 126–133.
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### Determinants

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- Calvo, Guillermo, Leonardo Leiderman, and Carmen Reinhart, 1996. Inflows of capital to developing countries in the 1990s. *Journal of Economic Perspectives* 10(2): 123-139.
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- Kristin Forbes, Marcel Fratzcher, Roland Straub (2013 draft) [Capital Controls and Macroprudential Measures: What are They Good For?](#)
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- Cardenas, Mauricio and Felipe Barrera, 1997. On the effectiveness of capital controls: The experience of Colombia during the 1990s. *Journal of Development Economics* 54(1): 27-57.
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- Chuhan, Punam, Stijn Claessens, and Nlandu Mamingi. (1998). "Equity and bond flows to Latin America and Asia: The Role of Global and Country Factors." *Journal of Development Economics* 55 (2), 439 - 463.
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- Malloy, Matthew, 2013. Factors influencing emerging market central banks' decision to intervene in foreign exchange markets. *IMF Working Paper WP/13/70*.
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#### Extreme Episodes

- Forbes, K., and F. Warnock, 2012. Capital Flow Waves: Surges, Stops, Flight and Retrenchment. *Journal of International Economics* 88(2): 235-251.

- Rothenberg, A., and F. Warnock, 2011. Sudden flight and true sudden stops. *Review of International Economics* 19(3): 509-524. NBER WP [version](#).
- Faucette, J., A. Rothenberg, and F. Warnock, [2005](#). Outflows-Induced Sudden Stops. *Journal of Policy Reform* 8(2): 119-130. [P10]
- Forbes, K., and F. Warnock, 2012. Debt- and Equity-Led Capital Flow Episodes. in *Capital Mobility and Monetary Policy*, edited by Miguel Fuentes and Carmen M. Reinhart. Santiago: Central Bank of Chile. also available as NBER WP 18329.
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- Luis A. V. Catao and Gian Maria Milesi-Ferretti, 2013. [External Liabilities and Crises](#)
- Maurice Obstfeld (2011), "International Liquidity: The Fiscal Dimension," mimeo, UC-Berkeley.
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## Returns Differentials, Exorbitant Privilege, Global Imbalances

- Curcuru, S., C. Thomas, and F. Warnock, 2013. [On Returns Differentials](#). *Journal of International Money and Finance* 36: 1-25. Workbook available at <http://www.nber.org/data-appendix/w18866/>
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