

Department of Economics

MSc. in International Banking and Finance

SEMINAR

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Date: 10 October 2008 (Friday)

Time: 2:30 – 4:00 pm

Venue: SO201, Dorothy Y. L. Wong Building

1. *Income Smoothing and Flows of International Investment Income: the Case of the U.S.*

With the perception of sharp increases on cross asset holdings from the 1990s, we start to wonder whether this phenomenon on foreign asset and liability holdings could improve the US income smoothing through net factor income from abroad although previous studies found little support on international income smoothing. In this study, we find that risk sharing in the US is far from perfect for about 70 percent of output shocks are not smoothed during 1977-2003. The remaining smoothed part mainly comes from consumption smoothing via national savings. Income smoothing only contributes 2-5%. Further, by using our proposed method for the analysis of income smoothing determinants and applying the model of Seemingly Unrelated Regressions, we identify that for the US investment income payments, US corporate profit is the principal income-smoothing factor. Besides, we distinguish that for the US investment income receipts, corporate profit in the rest of the world is mainly the un-smoothing factor to income smoothing and the primary smoothing factor providing income risk sharing through receipts side is interest receipt on banking asset. In addition we discover that due to the leading role of the US economy in the world, GDP variation in other countries tends to co-move with the US GDP fluctuation and that is why corporate profit in the rest of the world significantly supplies negative smoothing through the US investment income receipts.

2. *The Feldstein-Horioka Puzzle Revisited*

We study the Feldstein-Horioka (F-H) puzzle and modify the F-H regression by introducing the ratios of foreign asset and liability holdings relative to GDP as the interaction term with saving rates. And then by employing cross-sectional and panel-data regression estimations to the data for 25 OECD countries during 1970-2003, we through the demonstration successfully link developments in international capital markets over time (captured by time dummy) and the scale of international financial integration (represented by foreign asset and liability holdings ratios) with saving retention, and find that the evolution of international financial integration and a high level of foreign asset and liability holdings ratios (especially for FDI category) are both negatively (or positively) and robustly related to the level of saving retention (or capital mobility).

ALL ARE WELCOME

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