

## **BIOGRAPHY**

**Fernando A. Broner** was born in Argentina in 1970. He did his B.S in Physics and Mathematics in the Massachusetts Institute of Technology. His PhD. is from Massachusetts Institute of Technology, 2000. He is a CREI Senior Researcher.

## **PROJECT**

### **European Research Council Starting Grant**

Project acronym: KF&EM

Project full title: International Capital Flows Emerging Markets

## **Overview**

Financial liberalization in emerging markets has not produced the benefits predicted by conventional, neoclassical growth models. There is broad consensus that in real economies financial frictions must play a much larger role than these models anticipated. The objective of this research project is to enhance our understanding of how this happens, emphasizing the interactions between financial integration and the workings of domestic financial markets.

The project is structured around a set of different but related questions. (i) Can a theory emphasizing these interactions account for the macroeconomic effects of financial liberalization? (ii) How should emerging markets manage financial integration? Should they rely on financial systems that facilitate segmentation between domestic and international markets, as in the 70s and 80s? (iii) What are the implications for the global imbalances that contributed to the recent crisis? Can emerging markets "export" their vulnerabilities to advanced countries? (iv) Can such a theory explain the appearance of asset bubbles? What are their effects on the workings of international and domestic financial markets?

Gross capital flows reflect, to some extent, risk in domestic financial markets. They also raise this risk by increasing the incentives to default. This complementarity may be highly destabilizing. (v) Does the recent global financial crisis and associated collapse in gross capital flows reflect such forces? Have they been present in previous crises, particularly in emerging markets?

Today, emerging markets are more financially integrated than during the cold war. But the current situation has an antecedent in the late 19th century. Traditional research takes integration as exogenous. I will explore the forces that shape the process of financial integration. (vi) Is there any causal relationship between the existence of a hegemonic power, Britain in the late 19th century and the United States since the 1980s, and financial integration in emerging markets? (vii) What will be the effect of the ongoing weakening of the hegemonic power of the United States and the likely transition to a multipolar world?