

The focus of my research is developing an analytical and empirical framework to understand the effect of global financial flows on a heterogeneous-agent economy. The global integration of financial markets was an important milestone that characterizes the recent history of the world economy. The financial decisions of households, firms, banks, and governments are now closely affected by various global factors as capital moves across the boundaries of nations. These economic agents are not homogenous; thus, their responses to global financial flows are not identical. My research sheds light on the interaction of these heterogeneous agents to explore the linkage of global financial flows to economy-wide phenomena.

In this context, my current projects address three prominent issues: rising household wealth inequality, the widening gap in corporate earnings, and international banking regulations. I use various methodologies, from model development to data inference, to analyze the macroeconomic impacts of financial globalization.

(1) Wealth Distribution

In my job market paper, “*The World’s Banker: On the Rise in U.S. Wealth Inequality*,” I develop a method to analyze and quantify the contribution of financial globalization to rising wealth concentration among American households.

The U.S. economy is often referred to as the “banker to the world” due to its unique role in supplying global reserve assets and funding risky foreign investment. The rapid advancement of financial globalization in recent decades has allowed U.S. economic entities to seek funding from foreign investors, created new investment opportunities, and changed the market value of domestic assets owned by American households. However, although the U.S. is the centerpiece of global financial architecture, little research has studied the effect of capital flows on its household wealth distribution.

This paper takes a first stab at the mechanism. I develop a modeling framework to elucidate the linkage of global financial flows to wealth concentration. The model highlights the following points: 1) financial globalization raises wealth inequality in a financially-developed economy, initially due to foreign capital increasing domestic asset prices; 2) much of this increase is transitory and can be reversed as future expected returns on domestic assets fall; and 3) despite the low-interest-rate environment, newly accessed foreign capital provides incentives for affluent households to reallocate wealth toward risky assets while impoverished households increase their debt. Wealth concentration ensues only if this rebalancing effect is large enough to counteract the diminished return on domestic assets.

Next, I take the model to the data. Using a calibrated model, I show that the liberalization of financial flows between the central and peripheral economies potentially accounts for 34% to 55% of the observed increase in the current top one percent wealth share in the U.S. However, the model leaves room for a reversal. The recent decline of yields on U.S. domestic assets suggests that a reversal of the trend in rising wealth inequality is not impossible in the future. I provide back-of-the-envelope calculations of when this would be the case and a full quantitative analysis to support this claim.

(2) Corporate Profits

In a follow-up project, “*Multinationals as Global Financiers*,” Casey Kearney and I estimate the effect of access to global capital on the profits of U.S. non-financial firms.

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“Research Statement”

Using administrative data collected by the U.S. Bureau of Economic Analysis, we construct a panel dataset that contains the funding and investment activities of U.S. multinational firms and their affiliates. The paper begins by reporting a growing spread between the weighted averages of firms’ return on assets (ROA) and the interest rate amongst U.S. multinational firms. Domestic firms, on the other hand, have shown relatively parallel trends between the average ROA and the interest rate. We use the sectoral-level FDI restrictiveness index (e.g., regulatory barriers) as an identifying variation to estimate the effect of access to global capital on the spread between ROA and the interest rate at the firm level. Our evidence indicates that MNCs enjoy a 0.9% larger spread between ROA and the average interest rate compared to when the same firms did not have large ownership holdings in foreign affiliates.

Motivated by this reduced-form evidence, we develop a structural estimation model to disentangle potential mechanisms to explain the spread. The model highlights three channels: risk-exposure, incomplete financial integration, and intangible assets. Our structural estimation of this model suggests that much of the variation can be accounted for by the incomplete integration of global financial markets. What U.S. multinational firms can do is borrow in countries with a low interest rate and then invest in countries with a higher marginal product of capital. Firms in domestic-oriented sectors are stuck in the home country, thereby missing these opportunities. Our results highlight the role of U.S. multinationals as global arbitrageurs in addition to being global risk-takers.

(3) Global Banking Regulation

In a separate work, “*Currency Mismatch, Bank Fragility, and the Design of a Global Reserve System*,” Gita Gopinath, Jeremy Stein, and I develop a theory of the global reserve system under the dominant currency paradigm.

Our model highlights two main points. First, from an individual country's perspective, dollar reserve accumulation allows the central bank to implement bailouts at lower fiscal costs. A small, open economy can achieve the first best allocation on its own by means of bank regulation and dollar reserves. Paradoxically, however, the best response of each central bank drives down dollar interest rates at the global level, thereby inducing banks in other countries to further increase dollar borrowings. This causes a negative spiral of reserve accumulation and reduces global welfare. We use this framework to account for observed trends in currency mismatch in the private sector and study the optimal design of a global reserve system.

(4) Future Plan

One priority for my future research is to develop an empirical framework to explore the international credit spillover within a multinational corporation. Using the constructed data of our previous work, Casey Kearney and I plan to analyze an intra-firm spillover across different foreign affiliates in response to a credit shock. We are currently analyzing how U.S. multinational firms reallocated their cash and liquid assets across affiliates and how this intra-firm readjustment could have acted as a buffer during the 2008 global financial crisis.