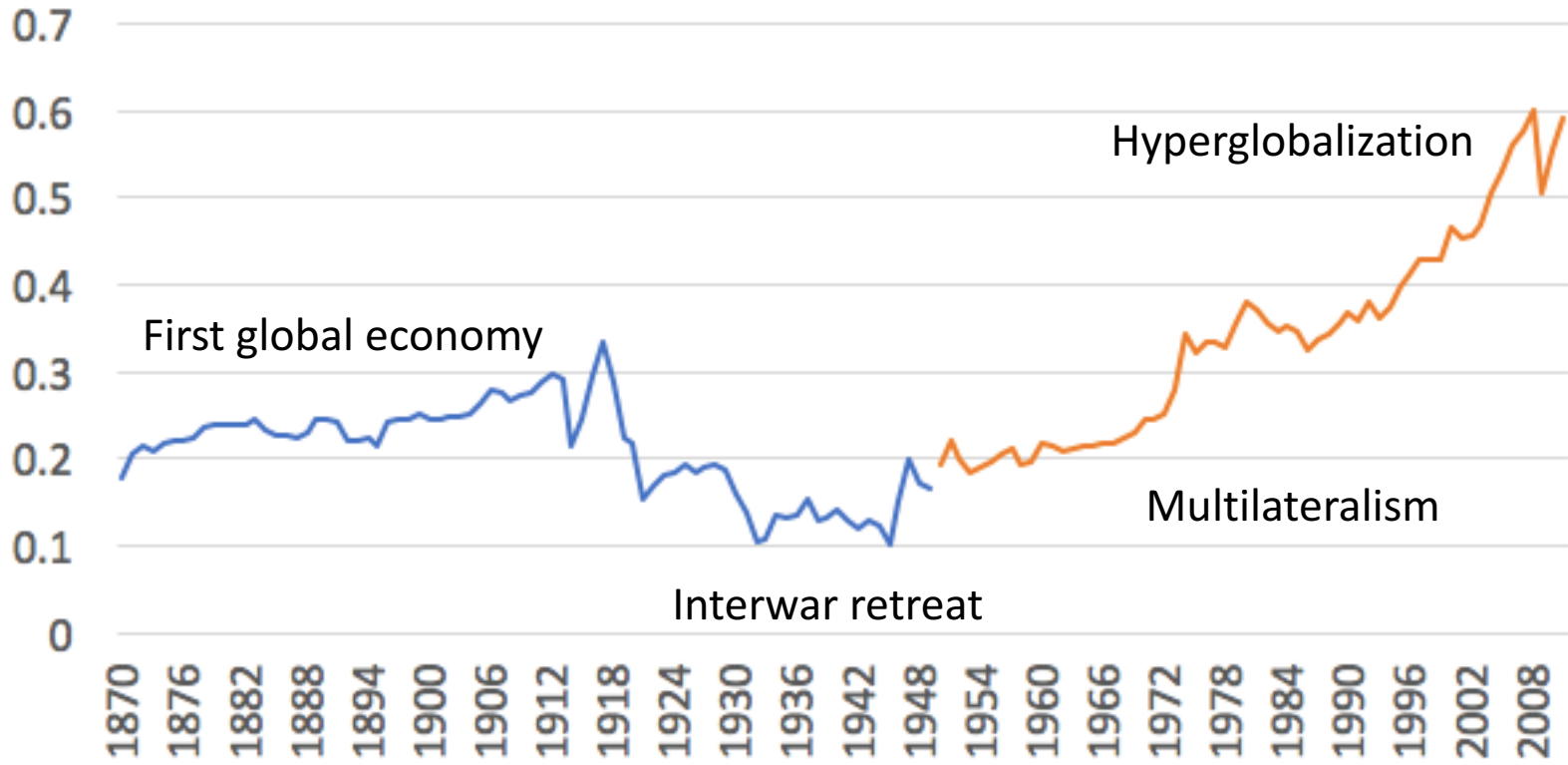


# What Do We Know About Capital Mobility?

Paul Krugman

# Trade share of world GDP



# Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)

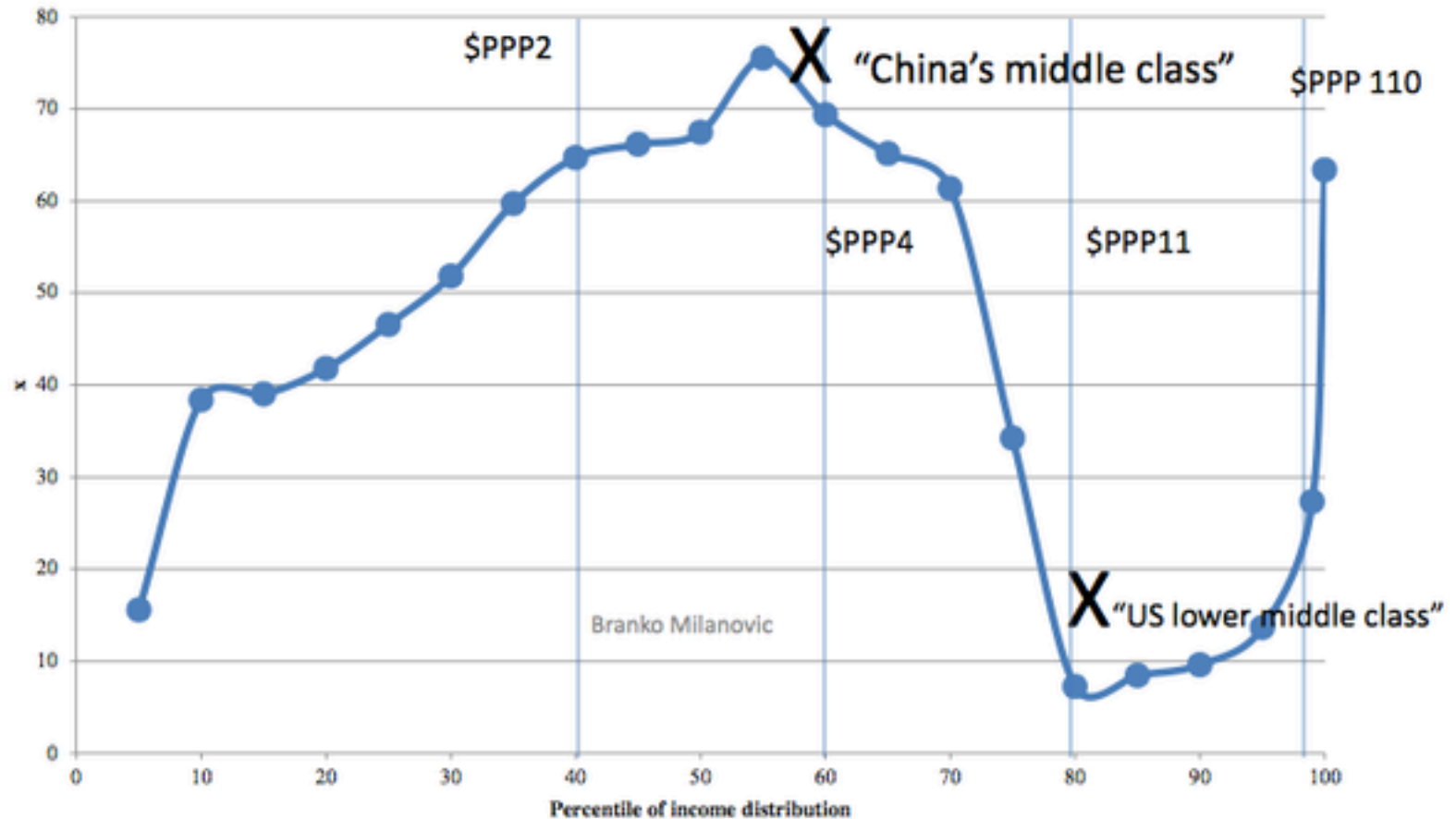
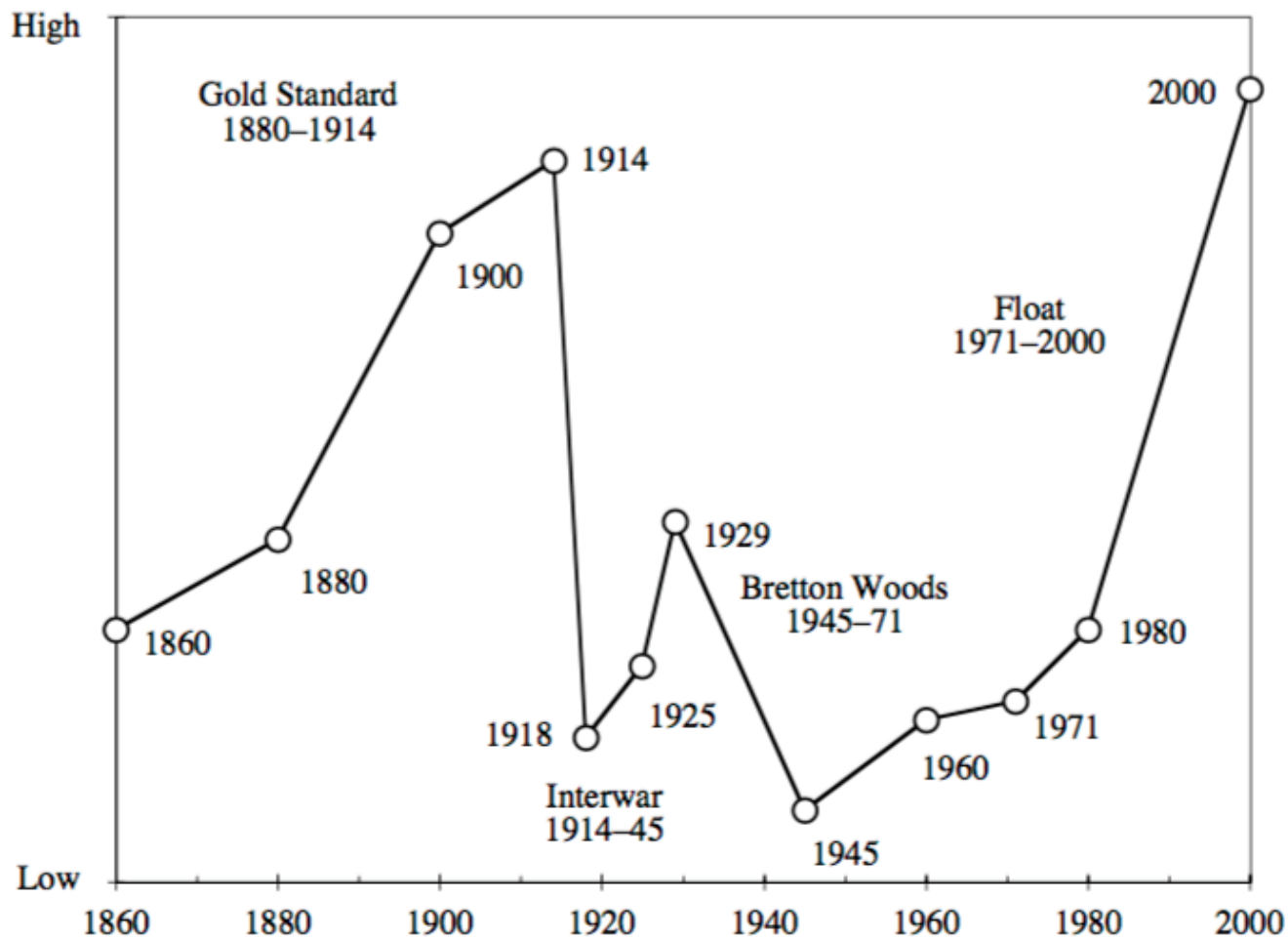


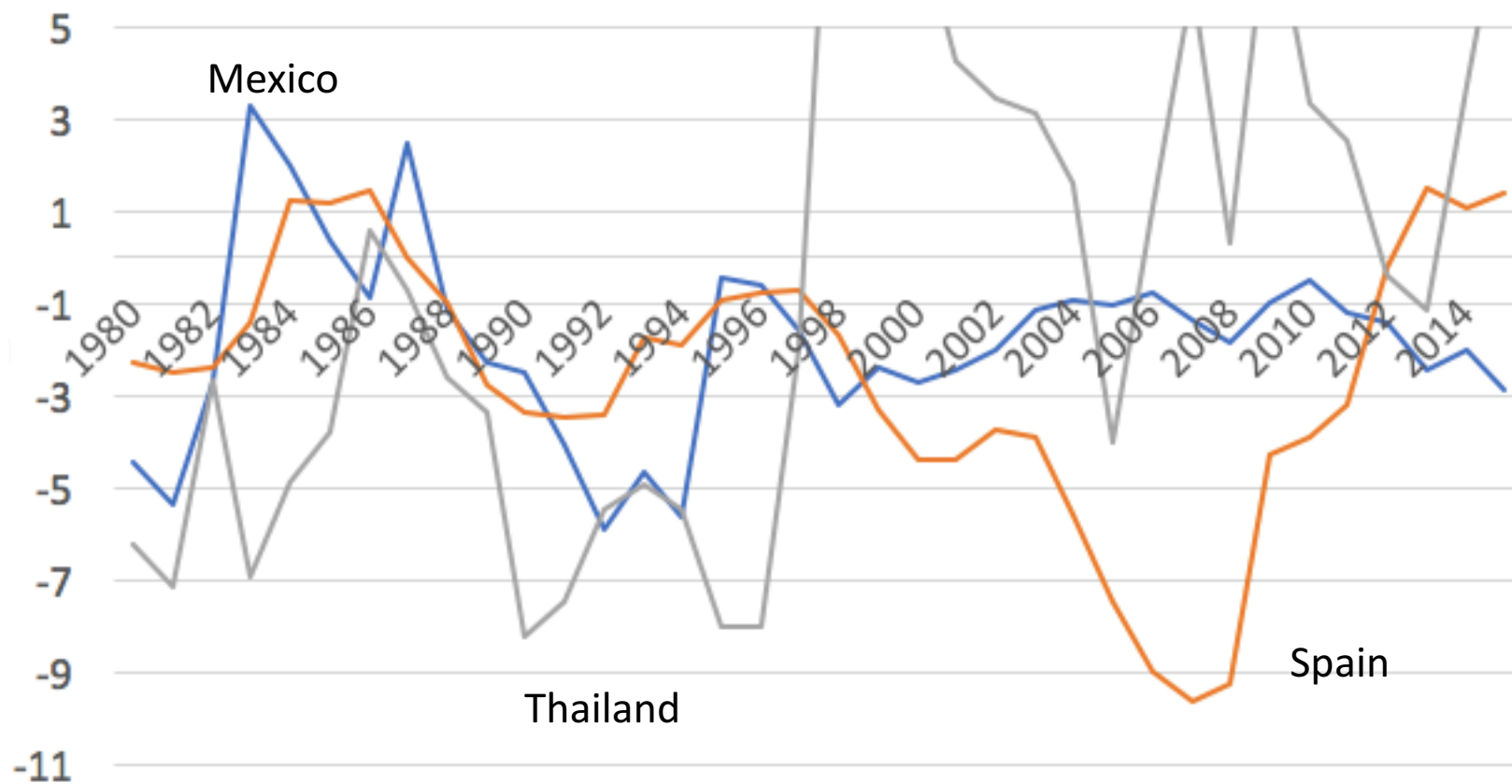
Figure 1: Conjecture? A Stylized View of Capital Mobility in Modern History



Source: Introspection.

(From Obstfeld and Taylor)

## Current account balances (% of GDP)

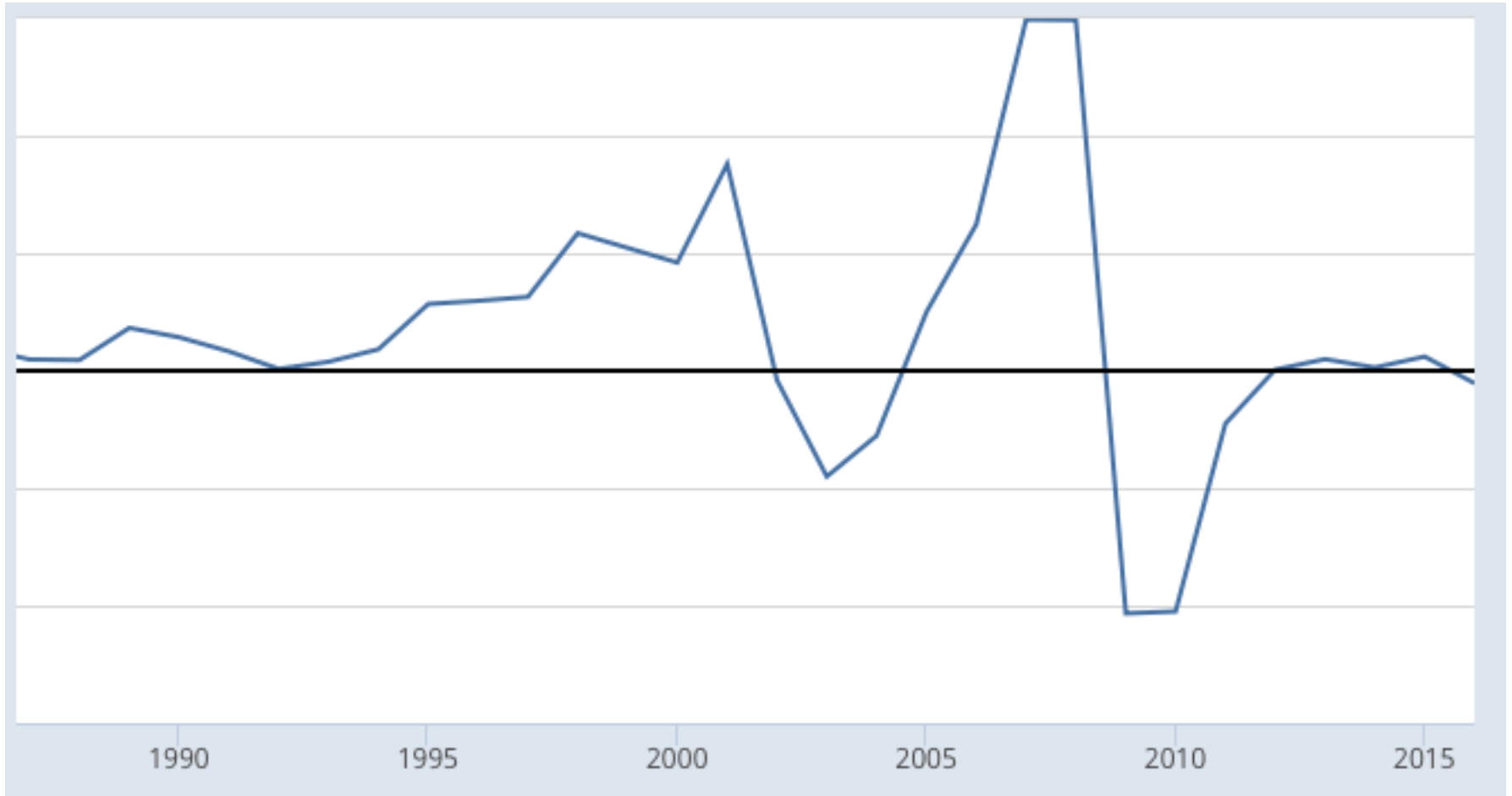


Why do large capital flows so often end in grief?

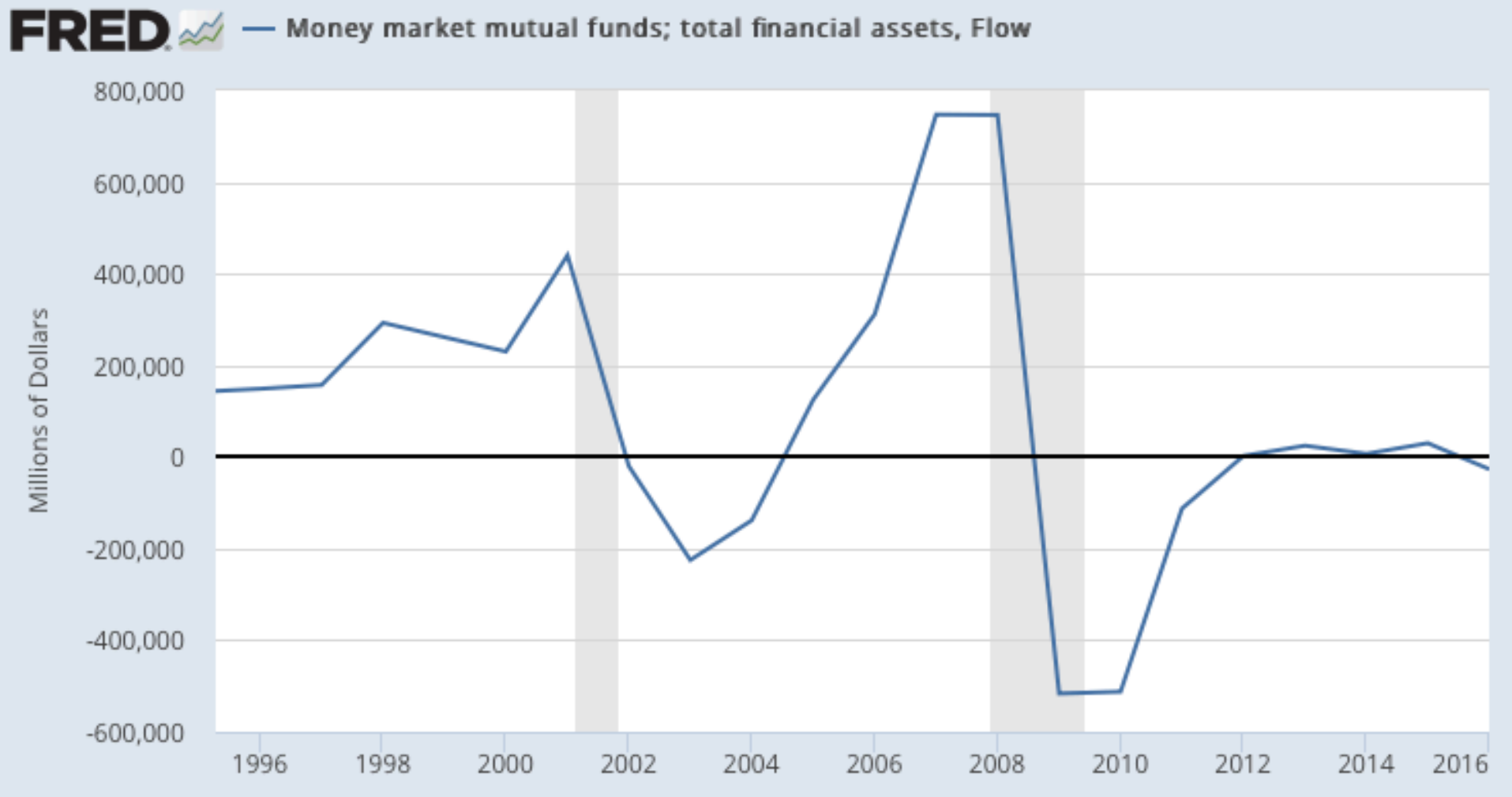
Three hypotheses:

1. Second-best issues: interaction with government
2. Banking: interaction with bank-run issues
3. Asset markets are different from goods markets

A classic example of overconfidence then sudden stop ...



But it's not about international capital flows!





## Mexico: Capital inflows as % of GDP

