

International Macroeconomic Connections: Trade, Quality and Finance

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Abstract

Globalization comprises flows of people, information and ideas, capital and goods across borders. It is difficult, if not impossible, to forecast the precise implications of this process. However, understanding them is crucial for governments, institutions and economic agents in general.

When regions of the world are interconnected, economic shocks spill over via prices (terms of trade) and capital flows. Literature shows that shocks have different consequences on macroeconomic volatilities depending on the level of integration, both in trade and in financial markets. Moreover, we highlight the specific role of trade credit in drawing international trade performance.

Integration must be analyzed together with advances in country development. Will Yuan become one of the driving currencies in the short future? Will preferences evolve towards a scenario with less risk aversion, less home bias in the baskets of consumption or high elasticities of substitution? How would these changes modify international portfolios and industrial organization?

The latter are some of the research questions economists would like to answer nowadays.

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