

Home bias and International Risk-Sharing in Open Economy Financial Macroeconomics

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[2 sessions - Wed. May 29th (10am-12am), Thur. May 30th (10am-12am)]

We present recent developments in macroeconomic modelling that incorporate international portfolio choices in standard two-country stochastic general equilibrium models (Open Economy Financial Macroeconomics). In particular, we review the determinants of international portfolios in frictionless financial markets with heterogeneous investors, with a particular focus on the origins of portfolio biases. We investigate how portfolio biases can naturally arise in presence of hedging motives (real exchange rate and non-tradable income risk) and how one can test the efficiency of international portfolios using asset prices data. The case of financial frictions will also be discussed. Together with new portfolio facts, the challenges ahead for future work on the topic will conclude the sessions.

Roadmap:

- Stylized facts on international portfolio allocation and risk sharing
- Two-country portfolio choice DSGE models in frictionless markets
- Empirical tests of portfolio efficiency
- Asset markets frictions (if time permits)
- New portfolio facts
- Limits of existing literature and leads for future research

Main reference:

Courdacier, N. and H. Rey, 2013. Home bias in Open Economy Financial Macroeconomics. *Journal of Economic Literature*.

And papers covered in the survey paper.