# Discussion of: Intertemporal Approach to the Financial Account

Pierre-Olivier Gourinchas and Hélène Rey

Fabrizio Perri
New York University

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# The Question

- How does the external adjustment take place, or

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- How does the external adjustment take place, or or how do countries repay their debts?

# The background findings

Gourinchas and Rey (2005) find that when US is debt, on average:

- US net exports grow (direct repayment)
- Relative returns on US owned foreign assets increase, mostly through RER movements.

# In a two periods setup

$$
\begin{aligned}
c &= y + A - A^{*} - \left(A' - A^{*'}\right) \\
c' &= y' + (1+r)A' - (1+r^{*})A^{*'}
\end{aligned}
$$

$A$ is US ownd foreign asts, $A^{*}$ is foreign ownd US asts

$$A - A' = NFA = -nx - nx' - rA' + r^{*}A^{*'}$$

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how does the repayment happens is intimately connected to the question of caused the imbalance in the first place..

# The Objective of this paper

Understand these phenomena as equilibrium responses to primitive shocks

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Very helpful exercise...

- What kind of model?
- What type of shocks?

# The model

GR use a two good GE endowment model with complete markets Positives:

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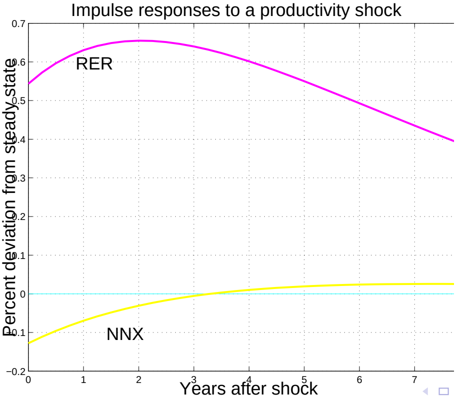
Needed?

- Additional shocks?

# An alternative model

- Standard IRBC model with investment and IM
- Still easy to solve (linearization)
- Clear notion of NFA
- Can easily be used to check what type of shocks are needed to reproduce GR facts

# An example



Impulse responses to a productivity shock
RER
NNX
Percent deviation from steady state
Years after shock
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
−0.1
−0.2
0
1
2
3
4
5
6
7

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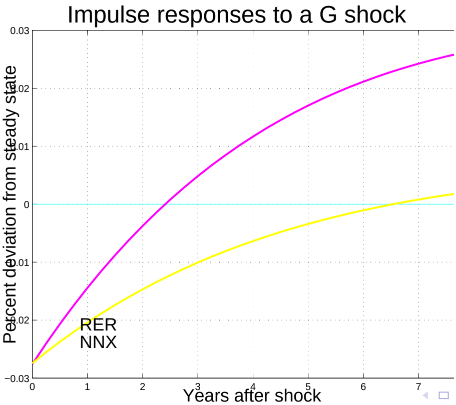

Impulse responses to a G shock
Percent deviation from steady state
Years after shock
0.03
0.02
0.01
0
−0.01
−0.02
−0.03
0
1
2
3
4
5
6
7
RER
NNX

# Summary

- GR uncovered some new findings on the dynamics of external adjustment
- This paper checks whether these findings can be rationalized by our existing models
- The use of these findings together with models can help us understand the forces that caused the external imbalance in the first place.