

FINANCIAL INTEGRATION WITH AND WITHOUT INTERNATIONAL POLICY COORDINATION*

Roberto CHANG

Department of Economics, New York University, NY 10003, USA

Abstract

This paper studies an economy in which financial integration increases world welfare in the presence of international policy coordination but decreases welfare in its absence. This happens because financial integration enhances the impact of domestic government financial policies on foreigners, which increases the welfare losses from noncooperative policymaking. The policy message is that financial integration, of the type attempted by European countries, can be successful if and only if governments agree to coordinate their macroeconomic policies.

Keywords: Financial Integration, International Policy Coordination

JEL Classification Numbers: E60, F33, F42

* This is a revised version of Chang (1989). I thank two anonymous referees for very helpful comments. I remain responsible for any errors. I also acknowledge the financial assistance of the C.V. Starr Center for Applied Economics at NYU.

Send Correspondence to:

Professor Roberto Chang
Department of Economics
New York University
269 Mercer Street- 7th Floor
New York, NY 10003
(212) 998 8958