RESEARCH STATEMENT

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I am a PhD and a job market candidate in Economics at the Department of Economics at Université du Québec à Montréal (ESG-UQAM). I am interested in studying the link between financial development, human capital, and capital inflows and their possible effects on economic growth, particularly in developing countries. Therefore, my expertise is related to Development Economics, Applied Micro-Econometrics, and International Economics. In this research statement, I describe my current work, its contribution to economic development and provide a brief outline of my future research.

Questions about international capital flows have recently renewed interest since Prasad *et al.* (2007) pointed out that capital tends to flow from developing countries to the United state of America over the two last decades. Beginning with Lucas's (1990) findings, a wide literature has shown empirically that little capital flows from rich to poor countries in contrast to the predictions of the textbook neoclassical growth model. According to the theoretical predictions, capital must flow into countries where its marginal return is higher. This discrepancy between theory and observed data has been explored from some different perspectives. The starting point to better understand why countries with lower productivity growth rate import capital are to identify the determinants of capital inflows in developing countries to improve growth models. The question on the determinants of capital flows remains open. Following discussions on the potential determinants in the literature and motivated by the findings of Lucas (1990) and Gourinchas and Jeanne (2013), I have been interested to explore the role of financial development and human capital development as determinants of capital flows. I address this challenge in my current research on two related topics.

What is the impact of financial development on productivity growth? I address the question in the paper titled "*Impact of financial development on convergence: A panel Approach*". I assess the Schumpeterian growth model with imperfect creditor protection developed by Aghion, Howitt, and Mayer-Foulkes (2005), using two econometric approaches. In the cross-country estimation, I use Instrumental Variable regression to deal with the endogeneity of financial development. Legal origin is the instrument used in the literature but received criticism because of the exclusion conclusion. I, therefore, performed the Generalize Moment Method estimation of dynamic panel data to deal with the endogeneity. My results suggest that financial development has a positive, but vanishing effect on per capita GDP growth. When I group countries following their level of financial development, I found that the positive effect is stronger for countries with a low level of financial development and non-significant for countries with medium and low levels of financial development. This paper lays out the premises for the next paper. Indeed, Gourinchas and Jeanne (2013) suggested that domestic financial friction, strongly correlated with productivity catch-up may help to explain the upstream flows of capital to countries with lower growth rates of productivity.

Why does capital flow into countries with a lower productivity growth rate? We stress the role of financial development for capital inflows in my job market paper titled "*Financial Development and Capital flows: The Schumpeterian growth on the "Allocation puzzle"* " (joint with Wilfried Koch). Following Gourinchas and Jeanne (2013), we give a shred of new evidence on the discrepancy between the negative correlation capital inflows-productivity catch-up observed with the data and the positive correlation predicted by standard growth models. We introduce a credit constraint in a calibrated Schumpeterian growth model to address this paradox; our main result indicates that when the level of financial development prevents countries from catch-up the world technological frontier, countries import capital to compensate their domestic saving as they fall behind the frontier. In this article, we showed that frictions in the domestic financial market play an important role in the behavior of external borrowing of countries that fail to catch-up with the world technological frontier. The correlation we highlight in this article does not control for other determinants of capital inflows. I address this in my next article. Within this article, I deepened my knowledge of theoretical and empirical literature on capital flows across countries, and especially to better understand the mechanism behind the Schumpeterian growth model. This paper is related to the first one because the pieces of evidence on the role of financial development and productivity growth stressed in my first paper has motivated our modeling. Our findings in this article have already introduced one of the avenues I would like to explore in my future research.

I next examine the relationship between the level of financial development and a particular component of capital flows, namely cross-border banking flows in "*Bilateral Cross-border Banking Flows: The Role of Financial Market Conditions of Host and Source Countries*". In this paper, I take advantage of the gravity model of trade literature, that has been adapted to international finance, to assess the effects of financial market conditions in both host and source countries on gross banking flows. This study is motivated by previous findings arguing that the behavior of gross flows was different from the traditional thoughts since the 2008's GFC. In addition, the crisis has highlighted that financial markets are interlinked across countries. Therefore, analyzing bilateral cross-border gross flows instead of net flows and only on the side of the host country may help to better understand the drivers of capital flows. I find that, overall, countries with a better financially developed market lend more to countries with a less financially developed market. In addition, this paper shows shreds of evidence that foreign financial market complements domestic financial market for cross-border banking flows. However, when I disentangle these flows by issuer sectors (banks and non-banks) and by financing instruments (loans and debts securities), I find that the level of financial development has a positive effect on gross inflows to non-banks when financed by loans and deposits, as predicted by theoretical predictions.

In "*Determinants of Capital inflows in Developing Countries: A Dynamic Panel Empirical Investigation"*, I explore the impact of financial development, capital account openness and human capital on external borrowing. In this article, my preliminary results show a significant positive effect of financial openness and a significant negative effect of financial development and human capital on capital inflows. I am now exploring the impact of these variables on the different types of capital inflows; I follow Gourinchas and Jeanne (2013) and decompose total capital inflows into private and public flows. At term, the main objective of this analysis is to shed light on which type of capital inflows (private or public) is more responsive to the determinants I mentioned above.

My agenda for future research is built on my current findings and I intend to pursue the same topics by exploring mainly two avenues. First, My findings suggest that a better domestic financial market is a key-driven to increase productivity growth in developing countries, and also determines the direction and the volume of capital flows. Several works have established the relationship and the causality between financial development and growth, but the questions of what determines financial development and how to develop financial markets remain imperfectly understood. I think that the answers to these questions are important for policies that could best promote financial development. Therefore, I intend to look at these questions in my future research. Second, I am interested in testing the impact of external debt on economic development in developing countries, especially the impact of public debt in low-income countries. As stressed recently by the IMF, I also think that too much debt can be harmful both for lenders and borrowers. Therefore, it is useful to determine an acceptable level of international indebtedness.