

## **Gains from financial globalization: (capital mobility, financial account openness)**

1) Consumption smoothing: If a country's output falls temporarily (recession, natural disaster...) it can borrow abroad (positive financial account) to keep consumption close to a normal level even though output is low (current account deficit).

Note: this implies the country accumulates foreign debt, which requires the country pay interest to foreign creditors in future periods.

2) Efficient investment: If a country has many profitable opportunities for investment in new capital, it can borrow abroad to finance higher investment expenditure without raising domestic saving (lowering consumption).

Example: Development of oil industry in Norway after oil discovered in North Sea.

3) Portfolio diversification: The ability to hold assets in multiple countries means you are affected less when a recession in your home country lowers asset returns in that country. Acts like a type of insurance.

Note: this depends on recessions not being global in nature.