

ABSTRACT

Essays on Macroeconomic Stability: Capital Flight, Asset Price Bubbles, and Capital Controls

Michelle Salandy

This dissertation examines the issues of capital flight, the potential use of capital controls, and asset price bubbles in the case of Trinidad and Tobago. It extends and broadens the previous work of Henry (1996). More specifically, it provides updated and detailed estimates of capital flight over an extended period, 1971-2011. It also assesses the determinants of capital flight over this longer period. Further, it evaluates the consequences of such capital flight on domestic investment and economic growth. By any measure, capital flight from Trinidad and Tobago is quite significant both pre and post financial liberalisation. Results show; external debt, lagged external debt, growth, lagged capital flight, interest rate differential, excess liquidity, and liberalisation are the main economic determinants of capital flight.

Additionally, the Generalised Method of Moments (GMM) and Vector Error Correction (VEC) models show that capital flight has a negative impact on domestic investment and growth. Given these findings, it therefore opens a discussion on the possible re-introduction of capital controls. Finally, it discusses the issue of asset price bubbles and examines the potential use of Asset Based Reserve Requirements (ABRR) as an alternative approach to monetary policy.

Keywords: Michelle Salandy; capital flight; liberalisation; and resource-based.