

## **LSE Economics PhD Placement: Job Market Candidates**

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JOB MARKET PAPER:

Firm Productivity and the Current Account: One Country with Two Financial Markets

ABSTRACT:

This paper relates China's current account surplus, as well as the productivity differential between state-owned (SOEs) and privately-owned enterprises (POEs), to differences in access to finance. I consider an open-economy DSGE model of the Chinese economy with two productive sectors. I model SOEs and POEs as start-ups which need to borrow in order to begin production. Following a policy-induced asymmetric shock to the borrowing constraints, SOEs are on average less productive than POEs. Because of the lower hurdle rate for investment they face, SOEs end up creating more investable assets than POEs. While, due to more constrained credit availability, POEs save more and invest less than SOEs. In aggregate, this simple mechanism implies investment (driven by less productive SOEs) does not keep up with savings (driven by more productive POEs), resulting in a current account surplus. Furthermore, the savings of Chinese POEs' owners in search of investable foreign assets put downward pressure on the world long run real interest rate. Earlier literature either discusses China's current account and productivity differentials separately, or assumes one phenomenon to explain the other. My paper shows that they could jointly be explained in GE by preferential access to credit for government backed firms.

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