

## APF PRESS CAMERA-READY COPY GUIDELINES

Format your paper as a Microsoft Word document with the following specifications:

- 1) Page Setup (in the File menu) should be as follows:
  - Pick 8 ½ by 11 inches letter size paper (this is the default for N. America, but may have to be selected specifically elsewhere).
  - The margins should be set to 1.25 inch on the top and 2.75 inches at the bottom, 1 inch on the left and 2.75 inches on the right. (For landscape margins, see (11) below).
- 2) The typeface and size should be Times New Roman 10 for the body of the entire paper. The paper should be single-spaced.
- 3) Paper Title, Authors and Affiliations:
  - **Title:** Use point size 16 Times New Roman (**bold**), **centered**. Capitalize first letters.
  - **Authors:** Use point size 14 Times New Roman (**bold**), **centered**
  - **Affiliation:** Use point size 14 Times New Roman (**bold and italics**), **centered**.
    - The affiliation should be on the line immediately following the author name. It should specify the name of the author's university or organization only. Write all affiliations out in full (e.g., Massachusetts Institute of Technology).
- 4) Abstract
  - Use point size 10 bold for the word "**Abstract**" to be followed by an abstract of no more than 100 words in point size 10 as in the text of the paper. No indentation for the abstract. The text of the abstract is not in bold.
- 5) Classification System for Journal Articles as used by the Journal of Economic Literature:
  - Bold only "JEL Classification:" separate with a comma all relevant classifications.
  - E.g., **JEL Classification:** F15, F36.
- 6) Keywords:
  - Bold only "Keywords", Capitalize first letter in keyword or term, separate by a comma
  - E.g., **Keywords:** Financial openness, Integration, Reforms, Emerging markets
- 7) Section headings:
  - Use point size 10 (**bold**) for the title of the section heading. First paragraph of section begins on the next line.
  - **I.e., 1. Introduction**
  - Use point size 10 italic for subsequent titles within a section. (i.e., *1.1 Background*)
  - Number each section, including Conclusion, Concluding Remarks, etc
- 8) Format titles of tables and graphs **in bold**, and left-justify at the top of the table or graph.
- 9) Paragraph indentation:
  - No indentation in the first paragraph of any section; indent thereafter.
  - Set width of indentation of indented paragraphs to 0.4 inches
- 10) Use full justification for the entire paper. Single-space the body of the text.
- 11) General style requirements:
  - Avoid contractions: use "for example", rather than "e.g."; "that is," rather than "i.e.," and "percent" rather than %

- References to decades should be written as 1990s and 1980s, e.g. (i.e., no apostrophe).
- 12) Ensure all graphics, figures and tables fit within the properly specified page margins.
- For landscape layout, use the following margin settings: top: 1 inch; bottom: 2.75 inches; left: 2.75 inches; right: 1.25 inches
- 13) Equations:
- Sequentially number equations, with the numbers appearing in parentheses against the right hand margin of the page.
- 14) Notes:
- There are no footnotes – only endnotes – and Arabic Numerals (1,2,3, ...), point size 10, should be used for numbering of the endnotes
  - Use 'Notes' subtitle, not 'Endnotes'
  - Format for 'Notes' numbering should be:
  - E.g., 1. body.....where the space between 1. and the body should be 0.25 inches
  - The first endnote should contain the author's rank, department, and contact information (email preferred). This note should appear at the end of the author list; i.e., if there is more than one author, the note containing this information should be tagged to the name of the last author. Acknowledgements, if any, should be included in this note as well.
- 15) Bibliography/References
- In-text references should be identified by author (year, page number): E.g., Frankel (1992, 200)
  - Parenthetical, in-text references should be identified by (author, year, page number): E.g., (See, for example, Frankel, 1992, 200.)
  - Do not number references
  - Use subtitle 'References', not 'Bibliography'
  - Single line spacing
  - For all references, use a hanging indent with a left hanging margin of 0.25 inches.
  - Format for 'References' should be:

Articles: Author(s), (year in parentheses), title, Journal name in italics, volume (issue), pages. E.g.,

Frankel, J.A., (1992), "Measuring International Capital Mobility: A Review", *The American Economic Review*, May, 28(2), 197-202.

Books: Author(s), (year), titles in italics, city: publisher. E.g.,

Marston, R.C., (1994), *Real Interest Rates in the Group of Five Industrial Countries: A Study of International Financial Integration*, Cambridge: Cambridge University Press.

Chapters in Edited Books/Collected Works: Author(s), (year), "Title of Article"; in Editors (eds) *Book Title in Italics*, City: Publisher, page numbers. E.g.,

Obstfeld, M. and Taylor, A., (1998), "The Great Depression as a Watershed: International Capital Mobility over the Long-Run", in Bordo, D.M., Goldin, C. and White, E.N., (eds.) *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century*, Chicago: University of Chicago Press, 353-402.

- 16) Refer to the excerpt following for examples.

# Distinguishing Between Financial Openness and True Financial Integration: Results from a Multi-Country Study

Bala Batavia

*DePaul University*

Parameswar Nandakumar

*Indian Institute of Management At Kozhikode*

Cheick Wagué<sup>1</sup>

*South Stockholm University*

**Abstract.** The concept *financial openness* is differentiated from that of *financial integration* with a survey of literature, and with reference to country experiences. A ranking is made of different developed and developing countries in terms of various definitions of financial integration, including the Feldstein-Horioka coefficient. It is seen that the ranking is not – by any means – identical for different measures of financial integration. Evidently, mere opening up to capital flows will not bring about financial integration, which will be reflected in interest rate premiums. Tests are conducted for the dependence of the degree of integration on country-specific characteristics such as the degree of decentralization, credit market restrictions, degree of indebtedness, size, and the like.

**JEL Classification:** F15, F36.

**Keywords:** Financial openness, Integration, Reforms, Emerging markets

## 1. Introduction

The economic mantra of the 1990s, taught by leading economists and institutions alike, was financial openness and capital account convertibility. The echoes are now dying out after the East Asian crisis and the popular approach prevailing is to go in for a kind of tempered financial liberalization where the flood ports are thrown open only after the domestic economy has been put through the paces of internal financial reforms and judicial prudential regulations.

The point being held aloft is that there are benefits, but also costs associated with financial globalization, and that the costs for the individual economy diminish if the ground is well-prepared prior to opening up.

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## 2. Financial Openness and Integration: Concepts and Indices

Le (2000) makes a clear distinction between these concepts of financial liberalization, which seems eminently reasonable, though some may argue that it is all a question of terminology. To begin with, it can be reaffirmed that opening up for international capital flows need not always lead to equalization of domestic and international interest rates, adjusted for expected exchange rate depreciation. The interest rate differential, which may persist after opening up, gives an indication of the *degree* of financial integration. With less than perfect integration, interest rate parity will not hold.

As Le (2000) has pointed out, for the purpose of international comparison - of the degree of financial integration - another familiar index, the Feldstein-Horioka (FE-HO) Index, may also be used. This index is used in the tests described in the next section. Increased integration will mean that domestic investment is no longer constrained by the level of domestic saving. This implies that the FE-HO Index or Coefficient, obtained by regressing investment on saving, is representative of the level of integration.

The FE-HO coefficient, as is well-known, requires that the country's real interest rate 'r' be tied to the world real rate 'r\*' as follows:

$$r - r^* = 0 \quad (1)$$

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**Table 1: Indices of Financial Openness and Financial Integration**

Country	FOP A	FOP B	FE-HO Index
Argentina	1.78	2.06	0.25***
Brazil	1.19	0.74	0.007

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## Notes

1. Bala Batavia is Professor of Economics at DePaul University, Parameswar Nandakumar is Professor of Economics at Indian Institute of Management, and Cheick Wagué is Professor of Economics at South Stockholm University. Comments from seminar participants at the Södertörn University of Stockholm, and from Brenda Spotton Visano are gratefully acknowledged. Corresponding author: Bala Batavia, DePaul University, Chicago, Illinois 60604-2287, bbatavia@depaul.edu

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## References

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- Frankel, J.A., (1992), "Measuring International Capital Mobility: A Review", *The American Economic Review*, May, 28(2), 197-202.
- Marston, R.C., (1994), *Real Interest Rates in the Group of Five Industrial Countries: A Study of International Financial Integration*, Cambridge: Cambridge University Press.
- Obstfeld, M. and Taylor, A., (1998), "The Great Depression as a Watershed: International Capital Mobility over the Long-Run", in Bordo, D.M., Goldin, C. and White, E.N., (eds.) *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century*, Chicago: University of Chicago Press, 353-402