THE IMPACT OF INTERNATIONAL CAPITAL INFLOWS ON ASSET PRICE AND LEVERAGE IN THE US

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〈SUMMARY〉

This paper explores the dynamic link among capital inflows, asset prices and leverage. A VAR model provides evidence that an expansionary shock to the capital inflows into the US Treasuries or corporate bonds lead to higher leverage by inducing appreciation in asset prices. This result implies that the capital inflows trigger an amplification mechanism between asset prices and leverage. That result also supports that capital inflows contribute to the upswing of US financial markets before the global financial crisis.