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# A New Measure of Financial Openness

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## Acknowledgements

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### Notes

1. See Edison and Warnock (2001), Edwards (2001), Edison et al. (2002), and Kose et al. (2006) for discussions and comparisons of various measures on capital restrictions. For extensive reviews on capital controls policy or financial liberalization, refer to Dooley (1996), Eichengreen (2002), Kose et al. (2006), and Henry (2006).

2. The exceptions to be noted are Ouinn (1997, 2003) and Miniane (2004) as we will discuss I

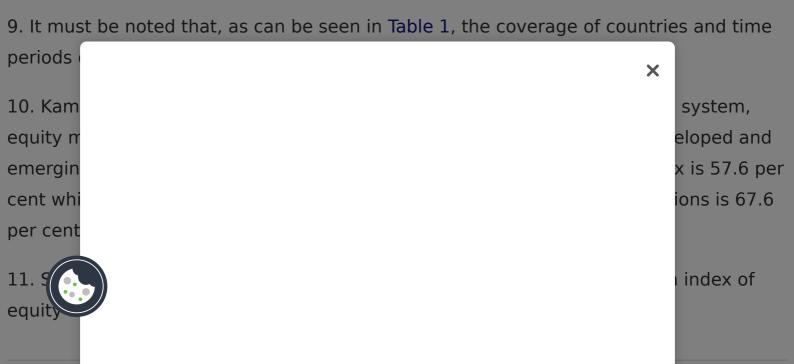
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t as those t crises, or nents (URR).

- 5. Kose et al. (2006) and Rajan (2003) categorize the measures of capital financial openness de jure measures (based on IMF's AREAER); de facto measures based on price differentials such as the uncovered or real interest rate parity (Cheung et al. 2006) and international arbitrage pricing model (IAPM) or capital asset pricing model (ICAPM) (see De Gregorio 1998); and de facto measures based on quantities, i.e., volumes of capital flows as a ratio to GDP, such as Lane and Milesi-Ferretti (2006). A drawback of the price-based measures is that the measures, especially those based on the interest rate parity conditions, can reflect changes in macroeconomic conditions even if there is no regulatory changes on capital account transactions. Other sources for categorization of measures on financial integration and/or financial openness are Cavoli et al. (2003) and Takagi and Hirose (2004).
- 6. We initially constructed this index for Chinn and Ito (2002, 2006). We have updated the series annually since then while expanding the scope of countries.
- 7. Especially, the k3 category was divided into 13 categories. See Johnston and Tamirisa (1998) and Miniane (2004) for details.
- 8. The index is normalized with the highest degree of financial openness captured by the value of 100 and the lowest by zero.



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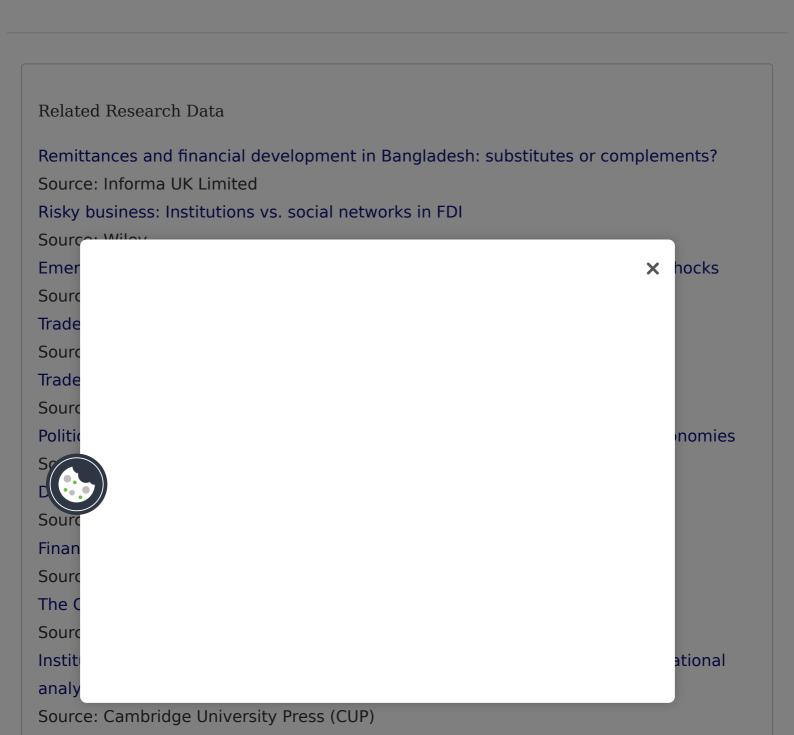
Notes

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Source: International Monetary Fund (IMF)

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