This three-essay dissertation makes contributions to the literature on foreign direct investment (FDI) and its relationship with collateral and the exchange rate. FDI refers to an investment made by a firm to establish or acquire a long-lasting interest in another firm operating outside its home country. Often, FDI involves substantial fixed costs that require the investing firm to seek external financing. Collateral has been identified as an important factor in the external financing of FDI. Firms pledge collateral in the form of tangible assets, such as land, to secure external financing. Firms lacking collateral are constrained in their ability to obtain external financing. Exchange rates have also been identified as a factor in FDI. Exchange rate movements may create differences in relative wealth between firms headquartered in different countries. Firms are more capable of internally financing their FDI projects as the home country's currency appreciates due to an increase in their relative wealth.

The first essay studies how the value of collateral pledged to externally financed FDI varies with how productive firms are. I develop a theoretical model
illustrating that more productive firms are able to pledge a smaller amount of collateral relative to less productive firms for FDI projects requiring the same amount of external financing. Additionally, firms with a productivity level below a set threshold level need to pledge collateral of greater value than the amount borrowed. Firms facing this situation may opt to instead forego the FDI project. I empirically examine the relationship between pledged collateral and productivity using firm–level data on Japanese FDI into the U.S. between 1980 and 2000. My results support an inverse relationship between productivity and pledged collateral implied by the theoretical model. My results are the strongest for 1991–2000, the period that followed the burst of Japan’s asset bubble and subsequent collapse of its banking system, which limited the access Japanese firms had to external financing. These results suggest that the productivity level of a firm is important in determining the amount of collateral pledged to secure external financing during a time of financial crisis. An intuitive explanation is that in the eyes of lenders more productive firms are likely to be more successful with their FDI projects.

The second essay studies the impact a financial shock has on the amount of ownership equity a parent firm places in its foreign affiliate. Ownership equity refers to the amount of controlling interest the investing firm has in the foreign affiliate. In particular, I show how land price shocks in Japan shaped the ownership equity of Japanese foreign affiliates. I do so by analyzing impulse response functions for Japanese foreign direct investment into 12 OECD countries from 1975 to 2000. A positive shock to land value increased ownership equity in foreign affiliates belonging to the same 2-digit standard industrial classification as their Japanese parent by approximately 4–8 percentage points. Ownership equity in foreign affiliates outside the 2-digit standard industrial classification of their Japanese parent does not appear to be affected by a positive land value shock.

The third essay studies the impact exchange rate movements have on foreign direct investment flows. I use a relatively new empirical technique known as global vector autoregression (GVAR) to model the interactions between the real exchange rate and U.S. outward FDI. My results indicate evidence of a statistical relationship between U.S. FDI outflow and exchange rate movements. However, my results also indicate that an exchange rate movement originating in one country or economic region does not appear to affect U.S. FDI outflow to other parts of the world. Finally, and perhaps most importantly, the actual size of the effect on U.S. FDI outflow is very small, amounting to much less than 1% of overall FDI received by host countries in the study for recent years. I conclude that exchange rates did not have an economically meaningful impact on U.S. FDI outflows during this period.