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## Information Frictions in Financial Flows

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## Information Frictions in Financial Flows

Benjamin Wache

This thesis investigates the influence of information frictions on the allocation of capital and its impact on economic activities like production and employment. It reveals that information frictions significantly determine capital flows and that variations in these frictions can significantly affect regional economic outcomes. The thesis utilizes a comprehensive dataset from 1865 to 2019, incorporating both historical and contemporary data, and employs modern statistical tools alongside gravity theories to analyze the effects of information on economic dynamics. The study underscores the importance of considering informational dimensions in policymaking and highlights the need for investment in ICT infrastructure and the nurturing of social infrastructure to facilitate capital allocation and economic growth. The second chapter explores the impact of information frictions on international capital flows, revealing that the introduction of international telegraph cables in the 19th century significantly increased the UK's bilateral export of financial capital to 33 countries, indicating a substantial influence of information on capital flows, with new telegraph connections boosting bilateral capital flows to private recipients by 100% to 200%. The third chapter investigates the determinants of venture capital investments in the US economy from 1960 to 2019, arguing that social ties play a crucial role in directing venture capital flows, with a 1% increase in social connectedness resulting in a 0.5% increase in venture capital investments, suggesting a high degree of influence by social networks. The fourth and final chapter, co-authored with Steven Poelhekke, delves into the less explored impact of venture capital investments on regional economies, using "social access to venture capital" as a new tool to measure a county's exposure to the venture capital cycle and isolate the impact of venture capital, and showing a strong and positive effect of venture capital investments on local economic growth.

Benjamin Wache (1989) holds a BSc in Economics from the University of Bayreuth, an MSc in Economics from the University of Munich, and an MPhil in Economics from the Tinbergen Institute. He wrote his PhD dissertation between 2019 and 2024 at the Economics and Spatial Economics Departments of the School of Business and Economics of the Vrije Universiteit Amsterdam. Since 2022 he works as an economist in the Macroeconomics and International Economics Department of CPB Netherlands Bureau for Economic Policy Analysis.



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838



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