Figure 24.1 Flows to Developing Countries

Capital Account Surplus, Current Account, and Change in Reserves

Source: World Development Indicators.
Figure 24.2 Alternative Ways of Managing Capital Inflows
Emerging Market Crises: Speculative Attacks

• First generation: Overly expansionary macroeconomic policy
  - “balance of payments crises” pre-1995
  - e.g., debt crises of 1982

• Second generation: Multiple equilibria
  - ERM

• Third generation: contingent liabilities and moral hazard
Figure 24.3  Alternative Ways of Managing Capital Outflows
Contractionary Devaluation

- Marshall-Lerner conditions
- Real balance effect (M/P)
- Real wage effect (?) and differing MPCs
- Balance sheet effects
Contagion

- Ill defined
- Spreads could arise because of irrationality
- Common shocks
- Re-evaluation of risks
Figure 24.4  Emerging Market Bond Index (EMBI) and International Finance Corporation Global Equity (IFCG) Indices