

Money, Crises, and Transition

Essays in Honor of Guillermo A.
Calvo

edited by Carmen M. Reinhart,
Carlos A. Végh, Andrés Velasco

The MIT Press
Cambridge, Massachusetts
London, England

© 2008 Massachusetts Institute of Technology

All rights reserved. No part of this book may be reproduced in any form by any electronic or mechanical means (including photocopying, recording, or information storage and retrieval) without permission in writing from the publisher.

MIT Press books may be purchased at special quantity discounts for business or sales promotional use. For information, please e-mail special_sales@mitpress.mit.edu or write to Special Sales Department, The MIT Press, 55 Hayward Street, Cambridge, MA 02142.

This book was set in Palatino on 3B2 by Asco Typesetters, Hong Kong and was printed and bound in the United States of America.

Library of Congress Cataloging-in-Publication Data

Money, crises, and transition : essays in honor of Guillermo A. Calvo / edited by Carmen M. Reinhart, Carlos A. Végh, Andrés Velasco.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-262-18266-9 (hbk. : alk. paper)

1. Monetary policy. 2. Foreign exchange rates. 3. Financial crises. 4. International finance. I. Calvo, Guillermo A. II. Reinhart, Carmen M. III. Végh Gramont, Carlos A., 1958– IV. Velasco, Andrés.

HG230.3.M682 2008

332'.042—dc22

2007039868

10 9 8 7 6 5 4 3 2 1

Index

- Acemoglu, D., 330, 361
Ackerman, Susan Rose, 432
Alesina, A., 122, 124, 130
Allen, R. G. D., 446
Amadeus database, 338
American Economic Association, 451, 455
American Economic Review, 452, 454, 457, 459
Andersen, P. K., 408
Andorra, 125
Angeletos, G.-M., 249
Arellano, Cristina, 109, 112
Argentina, xiv, xix, 74, 103, 105, 446, 448
 Calvo policy for, 437–438
 Cavallo and, 76
 central bank independence and, 78
 credibility and, 108
 debt rescheduling and, 440–442
 deposit rescheduling in, 438–439
 dollarization and, 122
 double mismatch and, 217
 financial intermediation and, 252, 260, 264, 272
 globalization and, 173, 176, 182, 187, 203
 government debt and, 251
 inflation policy and, 75–76, 437, 455
 movable collateral and, 266
 nominal rigidities and, 454
 private bond markets and, 269–270
 recovery and, 218–219, 221, 226–241
 Tablita plan and, 453
 Tequila Effect and, 99
 wealth redistribution and, 96
Argentine Bankers Association (ADEBA), 438
Asia. *See also* Specific country
 crisis in, xvii, 99, 101, 103, 173, 183, 200, 442, 458
 double mismatch and, 217
 East Asian Four and, 219, 221
 fiscal health of, 217–222
 rapid recovery of, 218
Asian Bond Market Initiative, 269
Asian Development Bank, 264, 266, 269
Asset market, 223–224, 241–244
Asymmetry, 5, 16–17, 249–250
Auernheimer, Leonardo, xv, 41–68

Bacha, Edmar, 448
Backus, David K., 7
Baldwin, R., 280
Banco Central do Brasil, 83–84
Bank for International Settlements (BIS), 251, 270–272
Bank of Canada, 78
Bank of England, 81
Banks
 advanced vs. emerging economies and, 72–74
 Argentina crisis and, 75–76
 central, 71, 81 (*see also* Central banks)
 financial intermediation and, 249–252, 260, 264, 266–272
 foreign exchange and, 73
 inflation targeting and, 79–84
 institutional development and, 74–79
 runs on, 73
 sudden stops and, 75
Barings, 88
Barro, R. J., 122, 124, 130, 134, 379, 392
Barro-Lee model, 134
Bassetto, M., 41
Batini, Nicoletta, 72, 77
Begg, D., 41
Ben-David, D., 379–380
Berg, A., 355
Bermuda, 125, 151n10
Bernanke, Ben S., 77, 79
Bhagwati, Jagdish, 449
Blanco, Herminio, 108
Blejer, Mario I., 88

- Bloomberg.com, 199
 Blundell, R., 145
 Bodman, P. M., 381
 Brady bonds, 101, 251, 272
 Brady Plan, 439, 456
 Brash, Donald T., 77
 Brazil, xvi, 455
 central bank independence and, 82–84
 double mismatch and, 217
 globalization and, 172–173, 176, 178, 183, 187, 198, 200
 inflation targeting and, 79–84
 Lula and, 82–84
 private bond markets and, 270
 recovery and, 219, 221
Brookings Papers (journal), 457
 Buiter, Willem, xv, 41
 Bulgaria, 338
 Burnside, Craig, 75
- Cagan, Phillip, 449, 460
 Call bonds, 43
 Calomiris, Charles, 75
 Calvo, Guillermo, 97, 116
 Argentina crisis and, 437–438
 background of, 431, 446–449
 balance-of-payment crises and, 96
 capital income taxation and, 279
 Columbia University and, xiii–xix, 432–435, 448–453
 contract theory and, 434, 438–440
 credibility and, 107, 452–457
 credit's role and, 327
 crisis recovery and, 217
 debt reduction and, 438–443
 elegant simplicity of, 41
 financial intermediation and, 250, 272
 Fraga and, 80
 future policy and, 460–461
 hard currencies and, 97
 inflation targeting and, 71–74, 77, 79–80, 85, 87–89
 influence of, xiii–xix, 3, 433–435, 437–443, 445
 Inter-American Bank and, 459–460
 International Monetary Fund (IMF) and, 437–438, 445, 453–456
 liability dollarization and, 73
 macroeconomic pessimism and, 159–160
 mathematics and, 446, 448, 452
 Mendoza interview with, 445–461
 Mexican crisis and, 173, 457–460
 Mundell-Fleming model and, 21
 optimal policy rules and, 18
 output collapses and, 380, 392, 400, 408
 papers of, 433–435, 438, 443, 445, 453–455, 457
 pegging and, 121
 Penn and, 452–453
 rational expectations (RE) and, 460–461
 recessions and, 377–378
 recovery and, 218
 shock transmission and, 175
 sticky prices and, 433, 445, 452–457
 sudden stops and, 99–101, 104–105
 switching effects and, 3–4
 as theoretician of reality, 445–446
 time consistency and, 449–452
 transition economies and, 456
 Calvo, Sara, 431
 Canada, 78, 176, 260
 Capital flows, 95, 456
 balance-of-payment crises and, 96
 capital mobility and, 279–293
 contagion and, 98–106
 continuous time analysis and, 42–46
 convergence hypothesis and, 391
 crises recovery and, 217–241
 financial intermediation and, 249–252, 260, 264, 266–272
 fiscal theory of the price level (FTPL) and, 42–64
 globalization and, 173–175, 279–293 (*see also* Globalization)
 inflation targeting and, 71–90
 Lahiri-Singh-Végh model and, 23–38
 liability dollarization and, 73
 macroeconomic pessimism and, 159–168
 Mundell-Fleming model, 21–38
 output collapses and, 377–425 (*see also* Output collapses)
 perfect mobility and, 21
 sudden stops and, 73–75, 96–114, 378, 392, 394, 443, 445
 taxes and, 279–293
 transition economies and, 327–345, 349–376 (*see also* Transition economies)
 Capital mobility
 arbitrage condition and, 288–289
 globalization and, 279–293
 households and, 280–284
 labor and, 279–286
 median voter equilibrium and, 287–289
 Pareto optimality and, 285
 policy tools and, 286–287
 political economy and, 279–293

- production and, 284–286
- taxes and, 279–293
- Caprio, Gerald, Jr., 80–81
- Cardoso-Lecourtois, M., 337
- Carlstrom, C. T., 51, 53
- Carstens, Agustin, xiii
- Cash-in-advance (CIA) constraint
 - credit markets and, 332–338
 - financial intermediation and, 249
 - fixed exchange rates and, 35–37
 - flexible exchange rates and, 35–36
 - intuition and, 36
 - Lahiri-Singh-Végh model and, 24–25, 34–38
 - Nontrader's binding constraint and, 34–36
 - Trader's binding constraint and, 36–37
- Cass, David, 447
- Castellanos, J., 269
- Cavallo, Domingo, 76
- Cavallo, Michelle, 112
- Celasun, Oya, 454
- Center for Advanced Study in the Behavioral Sciences (CASBS), 432
- Center for Research on the Epidemiology of Disasters (CRED), 391
- Central Bank of Argentina, 437
- Central banks
 - accountability and, 71, 81
 - advanced vs. emerging economies and, 72–74
 - bank runs and, 73
 - dollarization and, 121–122
 - fiscal theory of the price level (FTPL) and, 43–46
 - independence of, 78, 82–84, 450–451
 - independent currency unions (ICUs) and, 126–127
 - inflation targeting and, 71, 79–84, 87
 - local-currency pricing (LCP) and, 4–7
 - pegging and, 55–62
 - Pou and, 76, 78
- Cerra, V., 379
- Céspedes, Luis, 21, 112, 217
- Chang, Roberto, 21, 96, 112, 217, 458
- Charoenseang, J., 218
- Chaturipitak, N., 268–270
- Cheap talk, 300–301, 309–310
- Chile, xvi, 73–75, 173
 - financial intermediation and, 260, 267
 - globalization and, 176
 - inflation targeting and, 79–80, 84–86, 113
 - wealth redistribution and, 96
- China, 103, 200
- Choi, S., 440
- Christiano, L. J., 41, 51, 53, 218
- Claessens, S., 218
- Cobb-Douglas production function, 160
- Cochrane, J., 41
- Cold War, 279
- Cole, Harold L., 96, 458
- Collateral, 264, 266
- Colombia, 182, 176
- Columbia University, xiii, xix, 432–435, 448–453
- Common currency
 - comparative analysis of, 127–129
 - effects of, 123–127
 - empirical model and, 130–132
 - estimator techniques and, 125
 - growth and, 121–124
 - inflation and, 132, 135, 137, 147–148
 - macroeconomic performance and, 130–139
 - moral hazard and, 131–132
 - nonparametric analysis and, 145–147
 - outcome equations and, 134–135, 147–148
 - robustness analysis and, 145–149
 - treatment equation and, 133–134, 146
 - volatility and, 137, 139
- Communauté Financière de l'Afrique (CFA), 122, 127, 148–149
- Consumption
 - capital mobility and, 279–293
 - cash-in-advance (CIA) constraint and, 249
 - equilibrium and, 28–29 (*see also* Equilibrium)
 - financial intermediation and, 249–252, 264, 266–272
 - Lahiri-Singh-Végh model and, 23–38
 - local-currency pricing (LCP) and, 4–7
 - macroeconomic pessimism and, 159–168
 - Obstfeld model and, 5–18
 - velocity shocks and, 31–32
- Contagion
 - causes of, 100–101
 - credibility and, 97–104
 - ex ante distribution and, 104–105
 - global capital markets and, 104–106, 171–172
 - information costs and, 104–105
 - measurement of, 99
 - rational, 104–106
 - sudden stops and, 98–106
- Continuous time analysis, 42–46
- Contract theory, 434, 438–440
- Contreras, B., 41
- Convergence hypothesis, 391
- Corden, W. M., 130, 454
- Coricelli, Fabrizio, xviii, 327–347
- Corsetti, G., 174, 217
- Costa Dias, M., 145

- Costa Rica, 173
- Cottarelli, C., 328
- Council for Mutual Economic Assistance (CMEA), 355
- Covariance matrix, 131
- Cowles Foundation, 432
- Cox proportional hazards model, 413
- Cranston, R., 266–267
- Crawford, V., 309
- Credibility, 445, 460
- Calvo and, 452–457
- contract enforcement and, 267
- emerging economies and, 95–97, 107–114
- financial frictions and, 107–114
- Mendoza-Uribe model and, 107–108
- policy implications and, 114–117
- property registration and, 267
- sticky prices and, 452–457
- sudden stops and, 96–104, 107–114
- time consistency and, 449–452
- Credit markets
- aggregate effects and, 340–341
- cash-in-advance (CIA) constraints and, 332–338
- chain system and, 335–338
- credit-to-GDP ratios and, 330
- cross-country regressions and, 339–345
- depth of, 327
- empirical analysis of, 338–345
- financial sector development and, 328–332
- growth during transition and, 332–338
- inter-enterprise arrears and, 335–338
- interest rates and, 332–333
- labor and, 332–333, 337
- liberalization and, 327, 331
- liquidity and, 333–338
- literature on, 328, 330
- output collapses and, 377–425 (*see also* Output collapses)
- reform and, 327, 335–338
- shocks and, 336–337
- stability and, 327
- threshold model and, 341–344
- trade credit and, 335–338
- transition economies and, 327–345
- underdevelopment of, 327–332
- volatility and, 330, 337
- World Development Indicators (WDI) and, 338
- Crises, xvi–xvii, 443
- Argentina, 103 (*see also* Argentina)
- Asian, xvii, 99, 101, 103, 173, 183, 200, 442, 458
- balance-of-payments, 96, 114–115
- Brazil, 79–84
- causes of, 390–405
- Chile, 79–80, 84–85, 96
- chronological data on, 204–213
- deteriorating fundamentals and, 176
- double mismatch and, 217
- Ecuador, 85, 103, 172
- emerging market economies and, 98–104 (*see also* Emerging market economies)
- event definition and, 381–385
- financial intermediation and, 249–252, 260, 264, 266–272
- globalization and, 171–175 (*see also* Globalization)
- Japan, 172–173
- literature on, 217
- macroeconomic pessimism and, 159–168
- Mexico, xvi, 85, 96, 98–99, 103, 187, 441, 457–460
- output collapses and, 377–425 (*see also* Output collapses)
- recovery and, 217–241 (*see also* Recovery)
- regression analysis and, 390–405
- Russia, 73–74, 80, 99, 101, 103, 174, 458
- shock transmission and, 171–172
- systemic risk and, 175–176
- Tequila, 99, 187, 441, 457–460
- Thailand, 172–173
- time inconsistency and, 95–96
- Turkey, 85
- wealth redistribution and, 96
- Croatia, 338
- Crockett, Andrew, 442
- Cukierman, Alex, 78
- Cumulative liberalization index (CLI), 354
- Currency, xvi
- bank runs and, 73
- common unions and, 121–124 (*see also* Common currency)
- credibility and, 95–104, 107–117
- credit markets and, 327–345
- crises recovery and, 217–241
- devaluation and, 62
- dollarization and, 21, 121–122, 455 (*see also* Dollarization)
- Dornbusch model and, 223
- duration analysis and, 384
- fiscal theory of the price level (FTPL) and, 46–52
- floating fears and, 73, 85
- globalization and, 200
- hard, 97–117, 121–153 (*see also* Pegging)
- independent currency unions (ICUs) and, 121–129, 133, 139, 143, 146–150
- inflation targeting and, 72–73

- information costs and, 107–117
- institutional development and, 74–79
- International Monetary Fund (IMF) and, 123
- liability dollarization and, 73–74, 109
- macroeconomic fundamentals and, 219–222
- Mendoza-Uribe model and, 107–108
- optimum currency area and, 133
- rational herding and, 105
- seignorage and, 121
- substitution and, 72–73
- sudden stops and, 107–114
- treatment equation and, 133–134
- Czech Republic, 176

- Daniel, B., 41
- Debreu, G., 447
- Debt, xiv, xvii, 97
 - asymmetric information and, 249–250
 - Bank for International Settlements (BIS) and, 251
 - Calvo policy and, 438–443
 - capital mobility and, 286–287
 - collateral and, 113
 - as countercyclical shock absorber, 252
 - crises recovery and, 217–241 (*see also* Crises)
 - developing countries and, 251–270
 - domestic vs. external, 251–260, 271–272
 - double mismatch and, 217
 - exchange rate fluctuations and, 84–87
 - fiat money and, 41
 - financial intermediation and, 249–252, 260, 264, 266–272
 - fiscal theory of the price level (FTPL) and, 41–64
 - forgiveness of, 166
 - GDP ratios and, 252–260
 - globalization and, 174–175 (*see also* Globalization)
 - highly indebted poor countries (HIPCs) and, 320
 - inflation targeting and, 73–74
 - institutional development and, 74–79
 - institutions and, 260–267
 - legal weaknesses and, 264–267
 - lemons problem and, 174
 - movable collateral and, 264, 266
 - pegging and, 55–62
 - private bond market and, 268–270
 - procyclicality and, 252
 - rescheduling of, 440–442
 - transition economies and, 327–345, 360 (*see also* Transition economies)
 - unanimous action clauses (UACs) and, 440–441
- de Gregorio, Jose, 80
- Deliberative democracy, 301–302
- Dell’Ariccia, G., 328
- del Valle, C., 269
- De Melo, M., 355
- Democracy
 - deliberative, 301–302
 - output collapses and, 394, 410, 412
 - values and, 315
- Denizer, C., 355
- Depreciation. *See* Currency
- Desai, Padma, xvii, 217–246
- De Soto, H., 264
- Devereux, Michael, xiv, 4, 9, 13, 16–17
- Díaz-Alejandro, Carlos, 448–449
- Díaz-Giménez, J., 249
- Diebold, F. X., 381
- Dietrich, Marlene, 431, 435n1
- Di Venuto, N., 381
- Djankov, S., 267, 330, 335
- Doe, Samuel, 125
- Dollar, D., 361
- Dollarization, xvi, 455. *See also* Common currency
 - advanced economies and, 121–122
 - CFA franc and, 127
 - description of, 121–122
 - Ecuador and, 150
 - El Salvador and, 150
 - growth and, 122
 - increase of, 122
 - independent currency unions (ICUs) and, 124, 139, 143, 150
 - interest rates and, 122
 - labor mobility and, 126
 - liability, 73–74, 109
 - Mundell-Fleming model and, 21
 - Panama and, 125, 130
 - Puerto Rico and, 125
 - strict, 139–144
 - tax evasion and, 125–126
 - treatment equation and, 146
 - treatments and, 146
 - volatility and, 143
- Dornbusch, Rudiger, 122, 223, 457
- Double mismatch, 217
- Double threshold model, 343–344
- Drazen, Allan, xviii, 295–324
- Dupor, B., 41
- Duration analysis, 424
 - correlates for, 412
 - crises recovery and, 405–422
 - equilibrium and, 387–390
 - event definition and, 381–385
 - exponential parameter and, 412–413, 416–417

- Duration analysis (cont.)
 Gini index and, 412
 Gompertz parameter and, 412–413, 416–417
 hazard rates and, 387–390, 408–422
 Herfindahl index and, 417
 human capital and, 410
 log-logistic parameter and, 412–413, 416–417
 log-normal parameter and, 412–413, 416–417
 multiple equilibria and, 413, 416
 Nelson-Aalen cumulative function and, 387–388
 output collapses and, 378–381, 394–405, 408–422
 Prentice-Williams-Peterson model and, 413, 418–421
 regional effects and, 378–379, 385–390
 time-specific effects and, 378–381, 394–405
 Weibull specification and, 410
- Durdu, C. B., 116
- Dynamic aggregative model, 435
- East Asian Four, 219, 221
- East Caribbean Currency Area (ECCA), 122, 127, 148–150
- Economia* (journal), 458
- Economic and Monetary Union (EMU) countries, 77
- Economist, The* (financial magazine), 279
- Ecuador, 75, 85, 101, 103, 150, 172
- Education
 labor and, 280–284
 public discussion and, 299–302, 312
- Edwards, Sebastian, xvi, 80, 121–156
- Eichenbaum, Martin, 75
- Eichengreen, Barry, 73, 122
- Elasticity, 6, 112, 114–115, 159–162
- El Salvador, 122, 150
- Elster, J., 301
- Emerging market economies. *See also* Transition economies
 advanced economies and, 72–74
 borrowing constraints and, 109–110
 capital markets and, 457–460
 contagion and, 98–106
 credibility and, 95–104, 107–117
 crises lessons from, 98–104
 crises recovery and, 217–241
 financial intermediation and, 251–270
 globalization and, 171–213 (*see also* Globalization)
 independent currency unions (ICUs) and, 121–127, 133, 139, 143, 146–150
 inflation targeting and, 71–90
 institutional development and, 74–77
 liability dollarization and, 109
 output collapses and, 387–390, 422–425 (*see also* Output collapses)
 ownership issues and, 295–321
 policy implications and, 114–117
 signaling and, 106
 stability and, 95
 sudden stops and, 98–104
- Emerging Market Fund (EMF), 458
- Emerging Markets Bond Index (EMBI), 99, 392
- Engel, Charles, xiv, 4, 9, 13, 16–17, 123, 125
- Enron, 73
- Equations
 baseline crisis specification, 390
 capital mobility model, 281–289, 292–293
 Cobb-Douglas, 160
 covariance matrix, 131
 domestic production, 160
 duration analysis, 405
 empirical growth model, 131–132
 enterprise liquidity, 333
 equilibrium Fisher condition, 43
 Euler, 12, 17, 44
 export proximity, 393
 fiscal theory of the price level (FTPL), 43–47, 51, 54, 57
 flexible-price equilibrium, 8–9
 inflation model, 147
 Lahiri-Singh-Végh, 23–37
 local-currency pricing (LCP), 5, 7
 macroeconomic pessimism, 160–165
 maximum likelihood function, 405
 Obstfeld model, 5, 7–14
 pseudo R^2 measure, 396
 recovery model, 223–225, 241–243
 sticky-price equilibrium, 10–14
 strong-form globalization, 192
 threshold model, 341
 transitional credit growth, 332–333, 336, 341
 weak-form globalization, 191
 Wilcoxon test, 191
 worker consumption, 161
- Equilibrium, 113, 434, 438, 460
 arbitrage condition and, 288
 asset price continuity principle and, 60–61
 consumption, 28–29
 duration analysis and, 387–390, 413, 416
 exchange rates and, 16–18 (*see also* Exchange rates)
 fiscal theory of the price level (FTPL) and, 43–62
 Fischer condition and, 43
 flexible-price, 8–9
 Kolmogorov-Smirnov test and, 178, 182

- Lahiri-Singh-Végh model and, 27–29
 leisure time and, 282
 local-currency pricing (LCP) and, 4–10
 macroeconomic pessimism and, 159–168
 median voter, 287–289
 money market, 27
 multiple, 413, 416
 Nash, 18n6
 nominal rigidities and, 453–454
 Obstfeld model and, 5–18
 optimal policy rules and, 14–18
 output collapses and, 387–390
 Pareto optimality and, 285
 pegging and, 55–62
 political economy model and, 280–293
 preset price, 9–14
 recovery and, 225–231, 241–244
 reform and, 166–167
 steady-state, 49–52, 63
 sudden stops and, 110, 112
 transversality and, 28
 velocity shocks and, 27–28
- Equity
 market issues and, 99, 112–115, 172, 175, 182, 199, 266, 285
 open economies and, 112–115
 volatility and, 172
- Estonia, 176
- Euler equations, 12, 17, 44
- European Bank for Reconstruction and Development (EBRD), 266, 355, 362, 372
- European Union (EU), 280, 290–291, 335
- Exchange rates, xiv–xv, 97, 217, 438
 asymmetric responses and, 16–17
 cash-in-advance constraints and, 24–25, 34–38
 crises recovery and, 217–241
 Devereux-Engel model and, 4, 13
 Dornbusch model and, 223
 fixed, 9–14, 30–36
 flexible, 3, 8–9, 16–18, 29–33, 35
 floating fears and, 73, 80, 85
 fluctuation issues and, 84–87
 Friedman model and, 3–4
 globalization and, 176 (*see also* Globalization)
 hard currencies and, 97–117
 inflation targeting and, 79–87
 institution building and, 362–372
 Lahiri-Singh-Végh model and, 23–38
 liability dollarization and, 73
 local-currency pricing (LCP) and, 4–10
 Mundell-Fleming model and, 21–38
 Obstfeld model and, 5–18
 optimal regimes for, 21–38
 pegging and, 55–62, 121 (*see also* Pegging)
 switching effects and, 3–4
 transition economies and, 355–360
Expanded War Data Set (Gleditsch), 391
- Fearon, J., 301, 312
- Fernández, Roque B., xiv, xix, 437–444
- Fiat money, 41, 45
- Financial intermediation
 asymmetric information and, 249–250
 Bank for International Settlements (BIS) and, 251
 Calvo and, 250, 272
 cash-in-advance (CIA) constraint and, 249
 contract enforcement and, 267
 default scenario and, 250–251
 government debt and, 249–252, 260, 264, 266–272
 International Monetary Fund (IMF) and, 249–250
 movable collateral and, 264, 266
 obtaining credit and, 267
 production and, 250
 property registration and, 267
 real estate and, 249–250
 stress test approach and, 249
- Financial Times*, 199
- Findlay, Ron, 432, 448–449
- Finland, 176, 260
- Fiscal Neutrality toward Economic Growth* (Phelps), 432
- Fiscal theory of the price level (FTPL), 74
 adjusted fiscal surplus and, 52–55, 66n14
 asset price continuity principle and, 60–61
 call bonds and, 43
 continuous time analysis and, 42–46, 65n3
 equilibrium and, 43–62
 Euler equation for, 44
 fiat money and, 41, 45
 government bonds and, 43–52, 63
 growth and, 43–52
 inflation and, 43–45, 48–50
 instantaneous adjustments and, 59
 literature on, 41–42
 monetary rule and, 46–55
 nominal interest rule and, 55–62
 nominal money treatment and, 52–53
 once-and-for-all increase and, 50
 pegging and, 41–42, 51, 55–63
 primary surplus and, 49–50
 taxes and, 44
 transversality and, 45–54, 58

- Fischer, Stanley, xviii, 121–122, 349–376, 433
 Fisher, I., 114
 Fisher condition, 43
 Fisher's principle of randomization, 191
 Fisman, R., 339–342
 Fitzgerald, T., 41, 51, 53
 Fixed effects logit analysis, 403
 Fleisig, H. W., 264, 266–267
 Fleming, M. J., 21, 270, 460
 Flood, Robert, 452
 Forder, James, 78
 Ford Foundation, 448
 Foreign aid, 349–376
 Foreign direct investment (FDI), 101, 458
Foundations of Economic Analysis (Samuelson), 447
 Fraga, Arminio, 78, 80, 82
 Frailties, 408
 France, 176, 291
 Frankel, J. A., 122–123, 125, 175
 French Guyana, 126
 Frieden, J., 134
 Friedman, Milton, 3
 Fuerst, T. S., 51, 53
- G7 countries, 176, 178, 192, 200
 Galton, F., 379
 Game theory
 heterogeneous public and, 312–315
 homogeneous public and, 303–308
 public uncertainty and, 308–312
 social welfare maximization and, 303–308
 special interest groups (SIGs) and, 298–299, 313–315
 time consistency and, 449–452
 Garber, Peter M., 108
 Garro, A. M., 266
 Gelb, A., 355
 Germany,
 globalization and, 172, 176–178, 182–183, 186, 193–194, 198, 200
 tax harmonization and, 290–291
 Ghosh, A., 123
 Gini index, 412
 Giovanetti, G., 249
 Gleditsch, K., 391
 Globalization, 202
 capital income taxation and, 279–293
 central vs. peripheral countries and, 173–175
 chronological market demographics for, 204–213
 contagion and, 171–172
 deteriorating fundamentals and, 176
 determinants and, 176–199
 equity and, 199
 financial centers and, 173, 175
 Fisher's principle of randomization and, 191
 Kolmogorov-Smirnov test and, 178, 182, 187
 lemons problem and, 174
 liquidity and, 174–175
 literature on, 176
 long-term capital management (LTCM) and, 171–172, 175, 178, 200, 203
 measurement and, 176–199
 nongovernmental organizations (NGOs) and, 296
 origins of, 199–201
 political-economy model for, 280–293
 prices and, 174–175, 199
 shock transmission and, 173–175, 182–183, 192–194, 198–199
 spillover and, 172–173, 182, 186–187, 200
 strong-form, 172–173, 203
 systemic risk and, 175–176
 trade competition and, 174
 weak-form, 172–173, 201
 Wilcoxon test and, 187
 World War I era and, 279
 Goldfajn, Ilan, 78, 82
 Gompertz parameter, 412–413, 416–417
 Goods market, 224, 241–244
 Government. *See also* Debt
 asymmetric information and, 249–250
 bonds and, 43–52, 63, 76, 268–270, 272, 438, 440–441
 central bank independence and, 78, 82
 cheap talk and, 300–301, 309–310
 crises recovery and, 217–241
 deposit rescheduling and, 438–439
 fiat money and, 41, 45
 financial intermediation and, 249–252, 260, 264, 266–272
 fiscal theory of the price level (FTPL) and, 41–64
 GKO bills and, 178
 Lahiri-Singh-Végh model and, 27
 macroeconomic pessimism and, 159–168
 nongovernmental organizations (NGOs) and, 296, 316
 pegging and, 55–62
 promises of, 96
 public uncertainty about, 308–312
 social welfare maximization and, 303–308
 special interest groups (SIGs) and, 298–299
 time inconsistency and, 95–96

- unanimous action clauses (UACs) and, 440–441
- wealth redistribution and, 96
- Great Depression, 459
- Greece, 176
- Greene, W. H., 124, 131–132
- Gross domestic product (GDP). *See* Growth
- Growth, xiv, xviii, 432, 443, 447. *See also* Debt
 - common currencies and, 121–124, 130–139
 - continuous negative, 380
 - dollarization and, 122, 139–144
 - empirical model for, 130–132
 - export flexibility and, 405–422
 - financial intermediation and, 249–252, 260, 264, 266–272
 - fiscal theory of the price level (FTPL) and, 43–52
 - independent currency unions (ICUs) and, 121–124, 127–129
 - International Monetary Fund (IMF) and, 87–88, 295–321
 - liberalization and, 331
 - outcome equations and, 134–135
 - output collapses and, 377–425 (*see also* Output collapses)
 - peak levels in, 377, 381, 384–385
 - private bond markets and, 268–270
 - recovery and, 219–241
 - Russia and, 349
 - total factor productivity (TFP), 130
 - transition economies and, 327–345, 349–376 (*see also* Transition economies)
 - treatment equation and, 133–134
 - volatility and, 330 (*see also* Volatility)
- Guatemala, 122
- Guidotti, Pablo, xvii, 454
- Guiso, L., 340
- Gulati, M., 440
- Gulde, A., 123
- Gulf War, 400
- Gurr, T. R., 392
- Gust, C., 218

- Habermas, J., 301–302
- Hall, R. E., 361
- Hansen, B. E., 341
- Haque, B., 41
- Hausmann, Ricardo, xviii–xix, 73, 377–428
- Havrylyshyn, O., 355
- Hazard rates
 - Cox proportional model and, 413
 - developing countries and, 389
 - duration analysis and, 387–390
 - frailties and, 408
 - Gompertz parameter and, 412–413, 416–417
 - Nelson-Aalen cumulative function and, 387–388
 - nonindustrial countries and, 388
 - output collapses and, 387–390, 405, 408–425
 - pooling and, 388–389
 - regional analysis and, 387–390
- Heaton, J., 270
- Heckman, J. J., 124
- Helbling, T. F., 349–376
- Helicopter drops, 45
- Helpman, Elhanan, 107, 454
- Herding, 105
- Herfindahl index, 417
- Herring, R. J., 268–270
- Heston, Charlton, 431, 435n1
- Hicks, J. R., 446–447
- Hidehiko, I., 124
- Highly indebted poor countries (HIPCs), 320
- Holland, 176
- Hong Kong
 - globalization and, 174–176, 200, 203
 - institution substitution and, 99
 - private bond markets and, 270
- Households
 - capital mobility and, 280–284
 - labor and, 280–284
 - Lahiri-Singh-Végh model and, 23–38
- Human capital. *See* Labor
- Hungary, 85, 176
- Hwang, J., 393, 417
- Hyperinflation, 50, 52–53, 308, 437, 440, 460

- Iceland, 338
- Independent currency unions (ICUs)
 - analysis of, 125–127
 - central banks and, 126–127
 - comparative analysis of, 127–129
 - dollarization and, 121–122, 124, 139–144, 150
 - estimator techniques and, 125
 - growth and, 121–124
 - interest rates and, 122
 - macroeconomic performance and, 133
 - nonparametric analysis and, 146–147
 - robustness and, 146–149
 - treatment equation and, 146
- India, 270
- Indonesia, 176, 200, 217, 272
- Industrial Revolution, 448
- Inflation, xvi
 - bad dream story and, 52
 - common currency and, 132, 135, 137
 - cyclical, 74

- Inflation (cont.)
 devaluation and, 62
 disinflation and, 80, 433, 454–455
 financial intermediation and, 270–272
 fiscal imbalances and, 75–76
 fiscal theory of the price level (FTPL) and, 43–45, 48–50
 foreign, 23
 Friedman model and, 3–4
 hyperinflation and, 50, 52–53, 308, 437, 440, 460
 independent currency unions (ICUs) and, 147–148
 literature on, 433–435
 nominal rigidities and, 454
 output collapses and, 396–397, 403
 recovery and, 237–241
 social welfare and, 308
 switching effects and, 3–4
 taxes and, 45
 time inconsistency and, 95–96
 transition economies and, 355, 360
 very rapid, 147
- Inflation targeting, xv–xvi, 3
 accountability and, 71, 81
 advanced economies and, 72–74
 Brazil and, 79–84
 Calvo and, 71–74, 77, 79–80, 85, 87–89
 central banks and, 71, 78, 82–84, 87
 Chile and, 79–80, 84, 86, 113
 constrained discretion and, 79
 critics of, 79
 currency substitution and, 72–73
 disinflation and, 80
 emerging market countries and, 71–90
 exchange rate fluctuations and, 84–87
 fiscal imbalances and, 75–76
 five elements of, 71
 flexibility and, 78–79
 floating fears and, 73, 80, 85
 information-exclusive strategy and, 71
 institutional development and, 74–79
 International Monetary Fund (IMF) and, 87–89
 liability dollarization and, 73, 74
 prices and, 71
 reform and, 77
 shocks and, 78–79, 82–83, 86
 stability and, 71, 74–79
 sudden stops and, 73–75
 transparency and, 71, 79
- Information costs, 104–105
 asymmetric information and, 249–250
 cheap talk and, 300–301, 309–310
 financial intermediation and, 249–250
 policy implications and, 114–117
 public discussion and, 288–316
 signaling and, 305
 social welfare maximization and, 303–308
 sudden stops and, 107–114
 uncertainty and, 308–312
- Institutions. *See also* Banks
 building, 362–372
 credibility and, 107–114
 defined, 360–361
 development of, 74–79
 formal/informal, 360–361
 government debt and, 260–267
 inflation targeting and, 74–79
 legal issues and, 264–267, 360–362
 moral hazard and, 75
 nongovernmental organizations (NGOs) and, 296, 316, 361
 organizations and, 361, 372
 output collapses and, 404
 public discussion and, 298–316
 rapid privatization and, 349
 reform and, 362–372
 regression analysis and, 372–373
 role of, 360–362
 strong fiscal, 74–77
 strong monetary, 77–79
 substitution and, 98, 107–114
 transition economies and, 360–374, 372–373
- Institutions Matter* (World Bank), 360
- Insurance, 96–97, 439
- Inter-American Development Bank, xix, 269, 445, 459–460
- Interest rates, 80–81, 83, 85
 asset price continuity principle and, 60–61
 asymmetric responses and, 16–17
 crises recovery and, 217
 Devereux-Engel model and, 4
 dollarization and, 122
 globalization and, 176
 independent currency unions (ICUs) and, 122
 Lahiri-Singh-Végh model and, 26–27
 local-currency pricing (LCP) and, 4–10
 macroeconomic pessimism and, 160
 nominal rule, 55–62
 Obstfeld model and, 5–18
 parity conditions and, 26–27, 62, 107
 pegging and, 41–42, 51
 recovery and, 218, 231–234
 shock transmission and, 175
 sudden stops and, 101

- transitional credit growth and, 332–333
- verification costs and, 439
- International Disaster Database, 391
- International financial institutions (IFIs), 349–350.
 - See also* Institutions
 - building of, 362–372
 - role of, 360–362
- International Financial Statistics (IFS), 134, 272
- International Monetary Fund (IMF), xvii, 437, 452
 - Brazil and, 81, 84
 - Calvo and, 437–438, 445, 453–456
 - cheap talk and, 300–301, 309–310
 - common currency and, 123
 - deliberative democracy and, 302
 - financial intermediation and, 249–250, 268
 - Guidelines on Conditionality and, 316–317
 - highly indebted poor countries (HIPC)s and, 320
 - Independent Evaluation Office (IEO) and, 317–318
 - inflation targeting and, 87–89
 - institution building and, 363, 366–367
 - nongovernmental organizations (NGOs) and, 296, 316
 - private bond markets and, 268–269
 - program ownership and, 295–321
 - Public Information Notice and, 311
 - Reinhart and, 456
 - Research Department and, xiii, xviii
 - social welfare maximization and, 303–308
 - special interest groups (SIGs) and, 298–299, 313–315
 - stress test approach and, 249
 - sudden stops and, 99
 - transition economies and, 456
 - transparency and, 317
- International Standard Industrial Classification (ISIC), 338
- Investment
 - arbitrage condition and, 288–289
 - capital markets and, 457–460
 - capital mobility and, 279–293
 - crises recovery and, 217–241
 - domestic production and, 160–161
 - labor and, 279–286
 - macroeconomic fundamentals and, 225–231
 - macroeconomic pessimism and, 159–168
 - market clearing and, 162
 - program ownership and, 295–321
 - rational herding and, 105
 - systemic risk and, 175–176
- Ireland, 125, 151n10
- Isard, Peter, xviii, 295–324, 452
- Italy, 176
- Izquierdo, Alejandro, 121, 442
 - inflation targeting and, 73, 77
 - institution substitution and, 97, 99
 - output collapses and, 379–380, 392, 400
- Jagers, K., 392
- Jamaica, 317
- Japan, xvii, 260
 - financial intermediation and, 252
 - globalization and, 172–174, 176, 178, 182–183, 186, 193, 198–200
- Jazbec, Bostjan, xviii, 327–347
- Johnson, S., 361
- Jonas, Jiri, 85
- Jones, C. I., 361
- Journal of International Economics*, 457
- Journal of Monetary Economics*, 453
- Journal of Money, Credit and Banking*, 450, 454
- Journal of Political Economy*, 446, 454
- J. P. Morgan, 99, 251, 272
- J-shaped pattern, 108
- Kaminsky, Graciela L., xvi–xvii, 74, 99
 - Calvo and, 438–439, 443
 - contract theory and, 439–440
 - financial intermediation and, 252
 - globalization and, 171–215
 - recovery and, 217
- Kehoe, Timothy J., 96, 458
- Keynes, John Maynard, 18, 433–435, 446
- King, Mervyn, 83
- Kiser, S. L., 218
- Kisselev, Kate, 112
- Kiyotaki, N., 337
- Klein, J. P., 408
- Klein, Michael W., 108
- Klingebiel, D., 81, 218
- Klinger, B., 392, 424
- Kocherlakota, N., 41, 51, 53
- Kolmogorov-Smirnov test, 178, 182, 187
- Koo, J., 218
- Koopmans, T., 432, 447–449
- Korea, 74, 99, 106, 176, 200, 217, 260
- Kraay, A., 361
- Krogstrup, S., 280
- Krugman, P., 217, 280
- Kuhn-Tucker condition, 34
- Kumhof, Michael, xvii, 114, 249–277, 454
- Kydland, 449

- Labor
 arbitrage condition and, 288–289
 capital mobility and, 279–286
 contract theory and, 434
 credit markets and, 332–333, 337
 education and, 280–284
 efficiency and, 280–281
 elasticity and, 161
 hazard rates and, 410
 IMF Guidelines and, 317
 market clearing and, 162
 maximum likelihood function and, 405
 output collapses and, 404–405, 410
 productivity and, 160–161 (*see also* Production)
 skilled, 280–284
 taxes and, 279–286
- Laeven, L., 218
- Lagrangians, 34
- Lahiri, Amartya, xv, 21–39
- Lahiri-Singh-Végh model
 cash-in-advance constraints and, 24–25, 34–38
 equilibrium and, 27–29
 fixed exchange rates and, 30–33
 flexible exchange rates and, 29–33
 government and, 27
 interest rates and, 26–27
 intuition and, 36
 Kuhn-Tucker condition and, 34
 Lagrangians for, 34
 output shocks and, 32–34, 37
 prices and, 23
 traders/nontraders and, 23–27
 transversality and, 28
 types of shocks and, 27–28
 utility maximization and, 25–27
 velocity shocks and, 31–32, 37
- Lancaster, Kel, 432, 449
- Landerretche, Oscar, 80
- La Porta, R., 267
- Latin America, xiv. *See also* Specific country
 crises recovery and, 219–222
 financial intermediation and, 266–267
 fiscal health of, 217–222
 peak growth levels and, 377
- Latin American and Caribbean Economic
 Association (LACEA), 458
- Laubach, F., 77, 79
- Laxton, Douglas, 72, 77
- Layton, A., 381
- Learner, E. E., 134
- Lee, J. W., 218, 392, 435n1
- Leeper, E., 41
- Legal issues
 government debt and, 264–267
 institutions and, 360–362
 New York governing law and, 440–441
 property rights and, 361
 unanimous action clauses (UACs) and, 440–441
- Leiderman, Leo, 100–101, 175, 455–456
- Leisure time, 282
- Lemons problem, 174
- Leone, Alfredo M., 88
- Lerrick, Adam, 97, 116
- Levy-Yeyati, E., 123
- Lewis, A., 171
- Li, S., 114
- Liability dollarization, 73–74, 109
- Liberalization, 327, 331
 index of privatization (LIP) and, 354
 transition economies and, 354, 362–372
- Liberia, 125
- Lichtenstein, 125
- Lin, D. Y., 408
- Liquidity, 97, 114–115
 credit markets and, 333–338
 globalization and, 174–175
 output collapses and, 412 (*see also* Output collapses)
 private bond markets and, 268–270
 transitional credit growth and, 333–334
- Loans. *See* Debt
- London School of Economics, 432
- Long-term capital management (LTCM), 171–172, 175, 178, 200, 203
- Loo-Kung, R., 379
- Lopez-de-Silanes, R., 267
- Love, I., 339–342
- Lucas, Robert E., Jr., 23, 46, 116, 433–434, 460
- Lula, 82–84
- Lyons, R., 175, 187, 203
- McCallum, B. T., 41, 51, 53
- McFadden, 396
- McLiesh, C., 267, 330
- Maddala, G. S., 124, 131
- Magendzo, I. Igal, xvi, 121–156
- Magic Flute* (Mozart), 435
- Malaysia, 174, 176, 187, 200, 217
- Manakit, P., 218
- Manin, B., 312
- Mantel, Rolf, 447
- Marimon, R., 249
- Marion, Nancy P., 108

- Markets
- access issues and, 21–22
 - asset price continuity principle and, 60–61
 - asymmetric information and, 249–250
 - capital mobility and, 279–293
 - chronological crisis data on, 204–213
 - common currency effects and, 123
 - contagion and, 98–106
 - Council for Mutual Economic Assistance (CMEA) and, 355
 - crashes and, 176
 - credibility and, 95–104
 - credit, 327–345
 - crises recovery and, 217–241
 - decentralized, 335
 - degree of integration and, 182–183
 - derivative, 268–270
 - double mismatch and, 217
 - emerging countries and, 71–90
 - equilibrium and, 25–27 (*see also* Equilibrium)
 - equity and, 99, 112–115, 172, 175, 182, 199, 266, 285
 - export flexibility and, 379, 392–394, 400, 403–422
 - financial intermediation and, 249–252, 260, 264, 266–272
 - Gini index and, 412
 - globalization and, 171–215 (*see also* Globalization)
 - goods vs. assets, 22
 - hard currencies and, 97–117
 - Herfindahl index and, 417
 - imperfection in goods, 21–22
 - incomplete insurance, 96–97
 - inflation targeting and, 71–90
 - Lahiri-Singh-Végh model and, 23–38
 - liability dollarization and, 73–74
 - liberalization and, 327, 331
 - local-currency pricing (LCP) and, 4–7
 - macroeconomic pessimism and, 159–168
 - Mundell-Fleming model and, 21–38
 - Obstfeld model and, 5–18
 - output collapses and, 377–425 (*see also* Output collapses)
 - pegging and, 55–62
 - prices and, xvi (*see also* Prices)
 - private bond, 268–270
 - segmented asset, 22–38
 - stability mechanisms and, 55–62
 - strong-form, 191–199
 - sudden stops and, 73–74 (*see also* Sudden stops)
 - transition economies and, 349–376 (*see also* Transition economies)
 - type of distortion and, 22
 - weak-form, 178–191
- Marshall, M. G., 392
- Martinique, 126
- Marty, Alvin, 450
- Masson, P., 77
- Masten, Igor, xviii, 327–347
- Mathematics, 446, 448, 452. *See also* Equations
- Mathematics for Economists* (Allen), 446
- Meade, J. E., 122, 130
- Mejía, L.-F., 379, 392, 400
- Meltzer, Allan H., 97, 116
- Mendoza, Enrique G., xvi, xix, 79
- Calvo interview and, 445–461
 - institutions and, 95–119
- Menze, J., 266
- Mercosur countries, 187
- Merrill Lynch, 272
- Metzler, L. A., 41
- Mexico, 75, 110, 113
- credibility and, 108
 - crisis of, xvi, 85, 96, 98–99, 103
 - financial intermediation and, 252
 - globalization and, 173, 175–176, 203
 - macroeconomic pessimism and, 159
 - markets after 1994 crash and, 457–460
 - Tequila Effect and, 99, 187, 441, 457–460
 - wealth redistribution and, 96
- Milesi-Ferretti, Gian Maria, 99
- Mill, John Stuart, 121
- Mills, T. C., 381
- Minella, André, 78, 82
- Minoui, C., 380, 384
- Mishkin, Frederic S., xv, 71–93
- Mitra, Pritha, xvii, 217–246
- Mody, A., 349–376
- Monaco, 122, 125
- Monetary policy. *See* Policy
- Money market, 224, 242–244
- Moody's, 200
- Moore, J., 337
- Mora, R., 381
- Moral hazard
- common currency and, 131–132
 - institutional development and, 75
 - output collapses and, 408–409, 424–425
- Morandé, Felipe, 80
- Morocco, 317
- Mozart, Wolfgang Amadeus, 435
- Mudambi, R., 381

- Mundell, Robert, 21, 133, 150, 449, 460
Mundell-Fleming model, xiv–xv
 Calvo and, 21
 dollarization and, 21
 flexible exchange rates and, 22
 imperfection in goods markets and, 21–22
 Lahiri-Singh-Végh model and, 23–38
 open economy and, 21–28
 perfect mobility and, 21
 shocks and, 22
 sticky prices and, 21
 traders/nontraders and, 22
Mussa, Michael, 87
- Nash equilibrium, 18n6
National Bank of Hungary, 85
National Monetary Council, 81
National Science Foundation, 454
Natural disasters, 391
Nelson-Aalen cumulative hazard function, 387–388
Neumeyer, P., 112
Neut, Alejandro, xvi, 159–169
New Keynesian theory, 433
New York, 440–441, 453
New York Times, 289, 457
Nicolini, J. P., 249
Niepelt, D., 41
Nobel Prize, xiii, xix, 116
Nongovernmental organizations (NGOs), 296, 316, 361
Nonparametric analysis, 145–147
Non-Ricardian policy, 47, 52
Norway, 176, 338
Null hypothesis, 178, 182, 187, 191
- Oates, W. E., 279–280
Obstfeld, Maurice, xiv–xv, 279
 Calvo and, 449, 452–453
 exchange rates and, 3–19
 fiscal theory of the price level (FTPL) and, 51, 53
Occam's razor, 417
Olivera, Julio H. G., 446–447
Open economies
 crises recovery and, 217–241
 government debt and, 251–270
 institutional development and, 74–79
 Lahiri-Singh-Végh model and, 23–38
 macroeconomic pessimism and, 159–168
 Mundell-Fleming model and, 21–28
 ownership issues and, 295–321
Ordinary least squares (OLS) analysis, 148
- Organisation for Economic Co-operation and Development (OECD), 125, 289
Ostry, J., 123
Outcome equations, 134–135, 147–148
Output collapses, 32–34, 37
 big, 385–390
 causes of, 390–405, 424
 comparative analysis and, 379
 convergence hypothesis and, 391
 democracy and, 394, 410, 412
 duration analysis and, 378–390, 394–422, 424
 equilibrium and, 387–390
 event definition and, 381–385
 export flexibility and, 379, 392–394, 400, 403–422
 fixed effects logit specification and, 403
 frailties and, 408
 Gini index and, 412
 goodness-of-fit indicators and, 396
 hazard rates and, 387–390, 405, 408–425
 Herfindahl index and, 417
 human capital and, 404–405, 410
 inflation and, 396–397, 403
 institutions and, 404
 literature on, 379–381
 long, 385–390
 maximum likelihood function and, 405
 natural disasters and, 391
 Nelson-Aalen cumulative function and, 387–388
 peak-trough ratios and, 377, 385
 political changes and, 400, 403
 postwar data and, 380
 predicting, 392, 394–405
 Prentice-Williams-Peterson model and, 413, 418–421
 pseudo R^2 measure and, 396
 recovery from, 405–422
 regional effects and, 378–379, 385–390
 regression analysis and, 390–405, 408–422
 short, 385–390
 small, 385–390
 statistical approach and, 379, 390–405
 sudden stops and, 378, 392, 394
 time-specific effects and, 378–381, 394–405
 unexploited product space and, 392–394
 unfinished episodes and, 380–381
 war and, 378, 380, 387, 390–408
 Weibull specification and, 410
 World Development Indicators (WDI) and, 377
Overlapping generations model, 446
Oviedo, P., 112

- Ownership
 cheap talk and, 300–301, 309–310
 concept of, 295–299
 creation of, 295–296
 defined, 295
 heterogeneous public and, 312–315
 highly indebted poor countries (HIPCs) and, 320
 homogenous public and, 303–308
 International Monetary Fund (IMF) and, 295–321
 nongovernmental organizations (NGOs) and, 296, 316
 public discussion and, 299–316
 special interest groups (SIGs) and, 298–299, 313–315
 World Bank and, 296–297, 318
- Paasche, B., 112
 Pakistan, 317
 Panama, 122, 125, 130
 Panizza, Ugo, 73
 Papell, D. H., 379–380
 Pareto optimality, 285
 Park, Y. C., 218
 Parkin, M., 433
 Parrado, E., 122
 Parsley, David, 99
 Pegging, 63
 asset price continuity principle and, 60–61
 Calvo and, 121
 CFA franc and, 127
 Chile and, 80
 contagion and, 98–106
 credibility and, 97–104, 107–114
 dollarization and, 121–122
 equilibrium and, 55–62
 fiscal theory of the price level (FTPL) and, 41–42, 51, 55–62
 hard vs. soft, 121
 independent currency unions (ICUs) and, 121–129, 133, 139, 143, 146–150
 interest rates and, 41
 nominal rule, 55–62
 nonparametric analysis and, 145–147
 sudden stops and, 98–114
 transition economies and, 355, 360
 volatility and, 137, 139, 143, 146–147, 152n17
 Penn, 452–453
 Perri, Fabrizio, 112
 Perry, G., 260, 264
 Peru, 176
 Pesenti, P., 174
 Petersen, M., 340
 Peterson, A. V., 413
 Phelan, C., 41, 51, 53
 Phelps, Edmund S., xiii, xix, 460
 on Calvo, 431–435
 Columbia University and, 431–435, 447, 449–450
 growth theory and, 447
 nominal rigidities and, 453
 Phelps-Pollak paper, 434
 Philippines, 176, 200, 260, 270, 317
 Poland, 176, 260, 270
 Policy, xiv, 455
 Brady Plan and, 439, 456
 Calvo's influence on, xiii–xix, 3, 433–435, 437–443, 445
 capital mobility and, 286–287
 central bank independence and, 78, 82–84, 450–451
 competition, 362–372
 contract theory and, 434, 438–440
 credibility and, 95–104, 107–114 (*see also* Credibility)
 crises recovery and, 217–241
 debt forgiveness and, 166
 debt rescheduling and, 440–442
 deposit rescheduling and, 438–439
 emerging vs. advanced economies and, 72–74
 exchange rates and, xiv (*see also* Exchange rates)
 expansionary, 166
 fiat money and, 41, 45
 financial intermediation and, 249–252, 260, 264, 266–272
 fiscal theory of the price level (FTPL) and, 41–64
 floating fears and, 73
 foreign aid and, 349–376
 future and, 460–461
 hard currencies and, 97–117
 IMF and, 87–89 (*see also* International Monetary Fund (IMF))
 inflation targeting, 71–90
 institutional development and, 74–79
 Lahiri-Singh-Végh model and, 23–38
 legitimacy and, 305
 liability dollarization and, 73–74, 109 (*see also* Dollarization)
 liberalization, 327, 331, 354, 362–372
 macroeconomic pessimism and, 159–168
 non-Ricardian, 47, 52
 optimal rules for, 14–18
 pegging and, 41, 55–63 (*see also* Pegging)
 privatization, 96, 349, 354, 362–372
 procyclicality and, 15

- Policy (cont.)
 program ownership and, 295–321
 public discussion and, 288–316
 recovery and, 217–241
 reform and, 166–167 (*see also* Reform)
 Ricardian, 54–55, 65n11, 107
 social welfare and, 303–308
 time inconsistency and, 95–96
 transition economies and, 349–376 (*see also* Transition economies)
 transparency and, 79, 317
 unanimous action clauses (UACs) and, 440–441
 verification costs and, 439
 welfare analysis and, 14–16
- Political economy
 budget constraints and, 291–293
 equilibrium derivation and, 291–293
 globalization and, 279–293
 model for, 280–293
- Politics, 451
 capital mobility and, 279–289
 Cold War and, 279
 democracy and, 301–302, 315, 394, 410, 412
 globalization and, 279
 output collapses and, 400, 403
 program design and, 302
 special interest groups (SIGs) and, 298–299, 313
 voters and, 286–289, 302
- Ponzi games, 109
- Portugal, 260
- Posen, A., 77, 79
- Pou, Pedro, 76, 78
- Powell, Andrew, 75, 124
- Prebisch, Raúl, 446
- Prentice, R. L., 413
- Prescott, Edward, 449–450
- Pesenti, P., 217
- Prices, xiv–xvi, 97, 115–116
 asset price continuity principle and, 60–61
 credibility and, 452–457
 crises recovery and, 223–225
 Devereux-Engel model and, 4, 13, 17
 exchange rates and, 3 (*see also* Exchange rates)
 fiat money and, 41, 45
 fiscal theory of the price level (FTPL) and, 41–64
 Friedman model and, 3–4
 globalization and, 174–175, 199
 inflation targeting and, 71
 instantaneous adjustments and, 59
 Lahiri-Singh-Végh model and, 23
 lemons problem and, 174
 local-currency (LCP), 4–10
 macroeconomic pessimism and, 159–168
 Mundell-Fleming model and, 21–38
 Obstfeld model and, 5–18
 sticky, 21, 249, 433, 445, 452–457
 sudden stops and, 110, 112 (*see also* Sudden stops)
 switching effects and, 3–4
Principles of Political Economy (Mill), 121
 Pritchett, L., 379
- Privatization
 reform and, 96
 too-rapid, 349
 transition economies and, 354, 362–372
- Production
 capital mobility and, 284–286
 Cobb-Douglas function and, 160
 constant-returns-to-scale function and, 284–285
 export flexibility and, 379, 392–394, 400, 403–412
 financial intermediation and, 250
 Herfindahl index and, 417
 local-currency pricing (LCP) and, 4–7
 macroeconomic pessimism and, 159–168
 market clearing and, 162
 Obstfeld model and, 5–18
 output collapses and, 377–425 (*see also* Output collapses)
 Pareto optimality and, 285
 sudden stops and, 110, 112 (*see also* Sudden stops)
 unexploited product space and, 392–394
- Property rights, 361
- Przeworski, A., 305, 312, 315
- Pseudo R² measure, 396
- Public discussion
 bias and, 300
 cheap talk and, 300–301, 309–310
 common ground and, 300–301
 constraints and, 299
 deliberative democracy and, 301–302, 315
 drawbacks of, 315–316
 education and, 312
 functions of, 303–315
 fuzzy thinking and, 296–297
 heterogeneous public and, 312–315
 homogenous public and, 303–308
 institutional capacity and, 299
 need for, 296–297
 nongovernmental organizations (NGOs) and, 296, 316
 program design and, 302–303
 public uncertainty and, 308–312
 reform and, 298–299

- signaling and, 305
- social welfare maximization and, 303–308
- special interest groups (SIGs) and, 298–299, 313–315
- understanding role of, 299–302
- voting and, 302–303
- Public Information Notice, 311
- Puerto Rico, 125
- Purchasing power parity (PPP), 384

- Rabanal, Pau, 88
- Race-to-the-bottom prediction, 280
- Rajan, R., 338–343
- Rank-sum test, 187
- Rational expectations (RE), 460–461
- Rawlsian maximin principle, 450
- Razin, Assaf, xvii
 - Calvo and, 449, 450, 454
 - globalization and, 279–294
 - institutions substitution and, 99, 101, 107
- Real estate, 249–250
- Rebelo, Sergio, 75, 107
- Recession, xviii–xix, 108. *See also* Output collapses
 - inflation targeting and, 75, 86
 - Keynesian, 434
 - macroeconomic pessimism, 159–168
- Recovery
 - aggregate supply and, 224–227
 - asset market and, 223–224, 241–244
 - corporate governance and, 218
 - datasets for, 226–229
 - depreciation rates and, 223
 - Dornbusch model and, 223
 - double mismatch and, 217
 - equilibrium and, 225–231, 241–244
 - exchange rate depreciation and, 234–236
 - goods market and, 224, 241–244
 - growth rates and, 219–241
 - inflation and, 237–238, 241
 - interest rates and, 231–234
 - literature on, 217–218, 244n1
 - macroeconomic fundamentals and, 219–231
 - model for, 223–244
 - money market and, 224, 241–244
 - output collapses and, 405–422
 - prices and, 223–225
 - private sector and, 218
 - rapid Asian, 217–218
 - simulations of, 225–226, 229–231
 - slow Latin American, 218
- Reddy, S. G., 380, 384

- Reform, 443
 - credibility and, 95–97, 107–114
 - credit markets and, 327, 335–338
 - inflation targeting and, 77
 - institutions and, 362–372
 - macroeconomic pessimism and, 166–167
 - public discussion and, 298–299
 - special interest groups (SIGs) and, 298–299
 - transition economies and, 362–372
- Regression analysis
 - credit markets and, 339–345
 - exponential parameter and, 412–413, 416–417
 - fixed effects logit and, 403
 - Gompertz parameter and, 412–413, 416–417
 - hazard rates and, 408–422
 - Herfindahl index and, 417
 - institutions and, 372–373
 - log-logistic parameter and, 412–413, 416–417
 - log-normal parameter and, 412–413, 416–417
 - output collapses and, 390–422
 - Prentice-Williams-Peterson model and, 413, 418–421
 - transition economies and, 372–373
 - Weibull specification and, 410
- Reinhart, Carmen, xvi–xvii, 74, 454
 - Calvo papers and, 455
 - crises recovery and, 217
 - financial intermediation and, 252, 264, 270
 - globalization and, 171–215
 - inflation targeting and, 73, 80, 85
 - International Monetary Fund (IMF) and, 456
 - private bond markets and, 260
 - sudden stops and, 99–101
 - switching effects and, 3–4
- Reinstein, A., 269
- Rhee, C., 269
- Ricardian policy, 54–55, 65n11, 107
- Rigobon, Roberto, 99
- Risk. *See also* Hazard rates; Investment
 - credibility and, 97–104, 107–114
 - Mendoza-Uribe model and, 107–108
 - systemic, 175–176
- Robinson, J., 361
- Rodriguez, Carlos, 449, 450
- Rodriguez, Francisco, xviii–xix, 377–428
- Rodrik, D., 217, 361, 393, 410, 412, 417
- Rogoff, K., 51, 53, 264
- Roland, G., 330
- Roldos, J., 218
- Romania, 338
- Rose, A. K., 122–123, 125
- Rose, Susan, 432

- Rothschild, Michael, 445–446
- Roubini, Nouriel, 112, 174, 217
- Rudebusch, G. D., 381
- Russia, 106, 114, 338
- bond default of, 174
 - credit markets and, 331
 - crisis of, 73–74, 80, 99, 101, 103, 174, 458
 - double mismatch and, 217
 - financial intermediation and, 252
 - GKO government bills and, 178
 - globalization and, 172, 176, 178, 183, 186–187, 192, 198, 200
 - growth in, 349
 - rapid privatization and, 349
 - sudden stops and, 101, 103
 - transition economies and, 349–376 (*see also* Transition economies)
- Russian virus, 174
- Sachs, J., 134
- Sachs-Warner index, 134
- Sack, B., 270
- Sadka, Efraim, xvii, 101, 279–294
- Sahay, Ratna, xviii, 349–376
- Sala-i-Martin, X., 134
- Salomon Brothers, 175
- Samuelson, Paul, 446–447
- Sargent, T., 41, 49, 74, 460
- Savastano, Miguel, 75, 80–81, 87, 264
- Savastano, M., 77
- Saxena, S. C., 379
- Scarf, Herb, 447
- Schmidt-Hebbel, Klaus, 72, 80
- Schmitt-Grohe, S., 249
- Schmukler, S., 175, 187, 203
- Schwartz, Gerd, 88
- Seignorage, 51, 107–108, 116, 121, 123, 139
- Senegal, 317–318
- Serven, L., 264
- Sharma, S., 77
- Shleifer, A., 267, 330
- Shocks, xv, xvii
- asymmetric responses and, 16–17
 - credit markets and, 336–337
 - crises recovery and, 217–241
 - Dornbusch model and, 223
 - globalization and, 171–175, 182–183, 192–194, 198–199
 - inflation targeting and, 78–79, 82–83, 86
 - information costs and, 105
 - local-currency pricing (LCP) and, 5
 - macroeconomic aggregates and, 110
 - macroeconomic pessimism and, 159–168
 - Mundell-Fleming model and, 22
 - Obstfeld model and, 9
 - optimal policy rules and, 14–18
 - output, 32–34, 37 (*see also* Output collapses)
 - permanent, 18n7
 - signaling and, 106
 - sudden stops and, 110, 112 (*see also* Sudden stops)
 - technology, 9, 13, 15–16
 - types of, 22–23
 - velocity, 27–28, 31–32, 37
 - world liquidity, 114
- Sichel, D. E., 381
- Sidrauski, Miguel, 447
- Signaling, 106
- Silk road, 203
- Simpson, J., 266
- Sims, C., 41
- Singapore, 174–176, 200
- Singh, Rajesh, xv, 21–39
- Siotis, G., 381
- Siu, H. E., 249
- Slovakia, 176
- Smith, Gregor W., 7
- Smith, Katherine A., 97, 109, 112
- Sobel, J., 309
- Social welfare, 303–308
- South Africa, 73
- Spain, 176, 200
- Special interest groups (SIGs), 298–299, 313–315
- Spillover, 172–173, 182, 186–187, 200
- Stability
- Brazil and, 79–84
 - Chile and, 79–80, 84
 - credit markets and, 327
 - emerging market economies and, 95
 - hard currency and, 98
 - inflation targeting and, 71, 74–84
 - institutional development and, 74–79
 - Mendoza-Urbe model and, 108
 - rational herding and, 105
 - recovery and, 217–241
 - Tablita plan and, 453
 - time inconsistency and, 95–96
- Standard & Poor's, 200
- Stanford University, 432
- Stiglitz, Joseph, 447
- Stokes, S. C., 312, 315
- Stress test approach, 249
- Sturzenegger, F., 123–124
- Subramanian, A., 361

- Sudden stops, 73–75, 443, 445
 causes of, 100–101
 contagion and, 98–106
 credibility and, 97–104
 equilibrium and, 110, 112
 foreign direct investment and, 101
 information costs and, 107–114
 institution substitution and, 107–114
 interest rates and, 101
 International Monetary Fund (IMF) and, 99
 liability dollarization and, 109
 output collapses and, 378, 392, 394
 rational herding and, 105
 Tequila Effect and, 99
 wealth effects and, 107
- Summers, L. H., 121
- Svensson, Lars O., 79
- Swagel, 280
- Sweden, 176
- Swift, Jonathan, 171
- Switzerland, 260
- Tablita stabilization plan, 453
- Talvi, Ernesto, 442
 hard currency pegs and, 121
 inflation targeting and, 73, 77
 institution substitution and, 97, 99
 output collapses and, 379–380, 392
- Tamiroff, Akim, 435n1
- Tanner, Evan, xvii, 249–277
- Taxes, xiv, xvii
 capital income taxation and, 279–293
 European Union and, 280, 290–291
 evasion of, 125–126
 financial intermediation and, 249–250, 273n3
 fiscal theory of the price level (FTPL) and, 44
 harmonization and, 290–291
 inflation, 45
 institution building and, 362–372
 international competition and, 279–280, 289–291
 labor and, 279–286
 Mexico and, 110
 political-economy model for, 280–293
 race-to-the-bottom prediction and, 280
 social welfare maximization and, 307–308
 stochastic distortion and, 97
- Taylor, A. M., 279
- Taylor, John, 432–434, 449, 453
- Taylor, L. W., 381
- Technology, 9, 13, 15–16
- Teles, P., 249
- Tenev, S., 355
- Tequila crisis, 99, 187, 441, 457–460
- Terrorism, 159
- Thaicharoen, Y., 361
- Thailand, xvii
 double mismatch and, 217
 financial intermediation and, 252
 globalization and, 172–176, 183, 186–187, 192–193, 198–199
 recovery and, 218–219, 221, 226–241
Theory of Value (Debreu), 447
Three Essays on the State of Economic Science (Koopmans), 447
- Tille, C., 174
- Time inconsistency, 449–452
- Tobin, James, 41, 431–432, 435, 447
- Todd, P. E., 124
- Total factor productivity (TFP) growth, 130
- Touch of Evil, A* (film), 431
- Townsend, R. M., 439
- Trade credit, 335–338
- Transition economies, 456
 Council for Mutual Economic Assistance (CMEA) and, 355
 credit markets and, 327–345
 empirical analysis of, 338–345, 353–354
 European Bank for Reconstruction and Development (EBRD) and, 355, 362, 372
 financial sector development and, 328–332
 foreign aid and, 349–376
 geography and, 354–355
 inflation and, 355, 360
 initial condition effects and, 354–355
 institutional roles and, 360–374
 liberalization and, 354, 362–372
 output growth and, 332–338, 350–353
 policy performance and, 355–360
 privatization and, 354, 362–372
 reform and, 362–372
 regression analysis of, 372–373
 scale of, 349
 Soviet bloc and, 349
- Transparency
 inflation targeting and, 71, 79, 82–83
 International Monetary Fund (IMF) and, 317
 volatility and, 137
- Transversality,
 exchange rates and, 28
 fiscal theory of the price level (FTPL) and, 45–54, 58
- Treatment effects model, xvi, 133–134, 146
- Trebbi, F., 361

- Triple threshold model, 341–342
 Turkey, 75, 85, 99, 176, 260
- Uganda, 307–308
 Ukraine, 176, 338
 Unanimous action clauses (UACs), 440–441
 United Kingdom, 150, 176
 United States
 central bank independence and, 78
 credit markets and, 339
 globalization and, 172, 176, 178, 182–183, 186, 198, 203
 government debt and, 251
 inflation and, 130
 interest rate decline in, 101, 103
 movable collateral and, 266
 shock transmission and, 175
 United States Agency for International Development (USAID), 447
 University of Buenos Aires, 447
 University of California, 445
 University of CEMA, 437
 University of Chicago, 437
 University of Maryland, 457, 459
 Uribe, Martin, 107, 109, 112, 249
 U.S. Foreign Disaster Assistance (OFDA), 391
 Utilitarianism, 450
 Utility
 capital mobility and, 282
 credibility and, 97–104, 107–114
 Lahiri-Singh-Végh model and, 25–27
 political-economy model and, 280–293
 transitional credit growth and, 332–335
 Uzawa, Hirofumi, 448–449
- Valderrama, D., 112
 Vales, Rodrigo O., 80
Value and Capital (Hicks), 446–447
 van Rijckenghem, C., 183
 van Rooden, R., 355
 Van Wincoop, E., 122
 “Varieties of Capital Market Crises” (Calvo), 457
 Végh, Carlos A., xv, 107
 Calvo and, 454–455
 exchange rates and, 21–39
 financial intermediation and, 250, 252
 growth in transition economies and, 353–355
 inflation targeting and, 72, 74
 pegging and, 41, 122
 recovery and, 217
 Velasco, Andrés, 21, 96, 112, 159–169, 458
- Velocity shocks, 27–28, 31–32, 37
 Venezuela, 176, 182, 200, 385, 387
 Verification costs, 439
 Vietnam, 308, 448
 Vishny, R., 267
 Vladkova-Hollar, I., 328
 Volatility, 124, 130
 asset prices and, 159–168
 common currency and, 137, 139
 credit markets and, 330, 337
 openness and, 137
 pegging and, 137, 139, 143, 146–147, 152n17
 strict dollarization and, 143
 Voters, 286–289, 302
- Wagner, Rodrigo, xviii–xix, 377–428
 Wallace, N., 41, 49, 74, 460
 Wall Street, 73, 174
Wall Street Journal, 199
 Walrasian system, 446
 Wars, 448
 output collapses and, 378, 380, 387, 390–408
 World War I era and, 279
 World War II era and, 279
 Wealth effects, 107
 Weder, B., 183
 Wei, L. J., 408
 Weibull specification, 410
 Welfare
 maximization of, 303–308
 optimal policy rules and, 14–16
 public discussion and, 303–308
 Welles, Orson, 431, 435n1
 Wellisz, Stan, 449, 452
 Werner, Alex, 457
 Wilcoxon test, 187
 Williams, B. J., 413
 Wolf, H., 123
 Woodford, M., 41, 52–55, 74
 Wooldridge, J. M., 124, 396
 World Bank, xviii, 134, 266–267
 credit markets and, 338
 duration analysis and, 384
 export data and, 392
 institutions’ role and, 360–361
 ownership and, 296–297, 318
 private bond markets and, 268–269
 social welfare maximization and, 307–308
 transition economies and, 372
 World Development Indicators (WDI), 134, 338, 377
 World Pension Association, 264

World War I era, 279

World War II era, 279

Yale University, 431–432, 447–448, 460

Yan, I., 114

Yue, Z. V., 112

Yuen, Chi-Wa, 101

Zhang, M. J., 408

Zingales, L., 338–343

