

This PDF is a selection from a published volume from the
National Bureau of Economic Research

Volume Title: Managing Currency Crises in Emerging Markets

Volume Author/Editor: Michael P. Dooley and Jeffrey A.
Frankel, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-15540-4

Volume URL: <http://www.nber.org/books/dool03-1>

Conference Date: March 28-31, 2001

Publication Date: January 2003

Title: Front matter, Managing Currency Crises in Emerging
Markets

Author: Michael P. Dooley

URL: <http://www.nber.org/chapters/c9642>



National
Bureau of
Economic
Research

A stylized world map in shades of red, orange, and blue, serving as the background for the cover. The map is centered on the Atlantic Ocean, with North and South America on the left and Europe and Africa on the right. A dark horizontal band with horizontal lines is overlaid across the center of the map.

**MANAGING CURRENCY CRISES
IN EMERGING MARKETS**

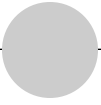
EDITED BY

MICHAEL P. DOOLEY AND JEFFREY A. FRANKEL

Managing Currency Crises in Emerging Markets



**A National Bureau
of Economic Research
Conference Report**



Managing Currency Crises in Emerging Markets

Edited by

**Michael P. Dooley and
Jeffrey A. Frankel**

The University of Chicago Press

Chicago and London

MICHAEL P. DOOLEY is a research associate of the National Bureau of Economic Research and a managing editor of the *International Journal of Finance and Economics*. Professor Dooley joined the faculty at the University of California, Santa Cruz, in 1992 following more than twenty years' service at the Board of Governors of the Federal Reserve System and the International Monetary Fund. JEFFREY A. FRANKEL is the James W. Harpel Professor of Capital Formation and Growth at the Kennedy School of Government and director of the International Finance and Macroeconomics program at the National Bureau of Economic Research.

To Rudiger Dornbusch, from whom we have learned so much.

The University of Chicago Press, Chicago 60637
The University of Chicago Press, Ltd., London
© 2003 by the National Bureau of Economic Research
All rights reserved. Published 2003
Printed in the United States of America
11 10 09 08 07 06 05 04 03 1 2 3 4 5
ISBN: 0-226-15540-4 (cloth)

Chapter 8, "An Evaluation of Proposals to Reform the International Financial Architecture" by Morris Goldstein © 2001, Institute for International Economics.
Comment by Edwin M. Truman on chapter 11, "IMF and World Bank Structural Adjustment Programs and Poverty" by William Easterly © 2001, Institute for International Economics.

Library of Congress Cataloging-in-Publication Data

Managing currency crises in emerging markets / edited by Michael P. Dooley and Jeffrey A. Frankel
p. cm. — (A National Bureau of Economic Research conference report)
Proceedings of a conference held in Monterey, Calif., in March 2001.
Includes bibliographical references and index.
ISBN 0-226-15540-4 (cloth : alk. paper)
1. Currency question—Developing countries—Congresses.
2. Foreign exchange rates—Developing countries—Congresses.
3. Financial crises—Developing countries—Congresses. I. Dooley, Michael P. II. Frankel, Jeffrey A. III. Series.
HG1496 .M36 2003
332.4'91724—dc21

2002018126

⊗ The paper used in this publication meets the minimum requirements of the American National Standard for Information Sciences—Permanence of Paper for Printed Library Materials, ANSI Z39.48-1992.

National Bureau of Economic Research

Officers

Carl F. Christ, *chairman*
Michael H. Moskow, *vice-chairman*
Martin Feldstein, *president and chief executive officer*
Susan Colligan, *vice president for administration and budget and corporate secretary*

Robert Mednick, *treasurer*
Kelly Horak, *controller and assistant corporate secretary*
Gerardine Johnson, *assistant corporate secretary*

Directors at Large

Peter C. Aldrich	Martin Feldstein	Alicia H. Munnell
Elizabeth E. Bailey	Stephen Friedman	Rudolph A. Oswald
John H. Biggs	Judith M. Gueron	Robert T. Parry
Andrew Brimmer	George Hatsopoulos	Peter G. Peterson
Carl F. Christ	Karen N. Horn	Richard N. Rosett
John S. Clarkeson	Judy C. Lewent	Kathleen P. Utgoff
Don R. Conlan	John Lipsky	Marina v. N. Whitman
George C. Eads	Michael H. Moskow	Martin B. Zimmerman

Directors by University Appointment

George Akerlof, <i>California, Berkeley</i>	Joel Mokyr, <i>Northwestern</i>
Jagdish Bhagwati, <i>Columbia</i>	Michael J. Brennan, <i>California, Los Angeles</i>
William C. Brainard, <i>Yale</i>	Andrew Postlewaite, <i>Pennsylvania</i>
Glen G. Cain, <i>Wisconsin</i>	Nathan Rosenberg, <i>Stanford</i>
Franklin Fisher, <i>Massachusetts Institute of Technology</i>	Michael Rothschild, <i>Princeton</i>
Saul H. Hymans, <i>Michigan</i>	Craig Swan, <i>Minnesota</i>
Marjorie B. McElroy, <i>Duke</i>	David B. Yoffie, <i>Harvard</i>
	Arnold Zellner, <i>Chicago</i>

Directors by Appointment of Other Organizations

Mark Drabenstott, <i>American Agricultural Economics Association</i>	Richard D. Rippe, <i>National Association for Business Economics</i>
Gail D. Fosler, <i>The Conference Board</i>	John J. Siegfried, <i>American Economic Association</i>
A. Ronald Gallant, <i>American Statistical Association</i>	David A. Smith, <i>American Federation of Labor and Congress of Industrial Organizations</i>
Robert S. Hamada, <i>American Finance Association</i>	Josh S. Weston, <i>Committee for Economic Development</i>
Robert Mednick, <i>American Institute of Certified Public Accountants</i>	Gavin Wright, <i>Economic History Association</i>
Angelo Melino, <i>Canadian Economics Association</i>	

Directors Emeriti

Thomas D. Flynn	Franklin A. Lindsay	Bert Seidman
Lawrence R. Klein	Paul W. McCracken	Eli Shapiro

Since this volume is a record of conference proceedings, it has been exempted from the rules governing critical review of manuscripts by the Board of Directors of the National Bureau (resolution adopted 8 June 1948, as revised 21 November 1949 and 20 April 1968).

Contents

Acknowledgments	xi
Introduction	1
Michael P. Dooley and Jeffrey A. Frankel	
I. THE DEFENSE	
1. Interest Rates and Exchange Rates in the Korean, Philippine, and Thai Exchange Rate Crises	11
Dongchul Cho and Kenneth D. West	
<i>Comment:</i> Robert Dekle	
<i>Discussion Summary</i>	
2. Interest Rate Defense against Speculative Attack as a Signal: A Primer	37
Allan Drazen	
<i>Comment:</i> Robert P. Flood	
<i>Discussion Summary</i>	
3. Does It Pay to Defend against a Speculative Attack?	61
Barry Eichengreen and Andrew K. Rose	
<i>Comment:</i> Richard Portes	
<i>Discussion Summary</i>	

II. THE PROGRAM

- 4. The International Lender of Last Resort:
How Large Is Large Enough?** 89
Olivier Jeanne and Charles Wyplosz
Comment: Olivier Blanchard
Discussion Summary
- 5. Rescue Packages and Output Losses
Following Crises** 125
Michael P. Dooley and Sujata Verma
Comment: Andrew Powell
Discussion Summary
- 6. Financial Restructuring in Banking and Corporate-
Sector Crises: What Policies to Pursue?** 147
Stijn Claessens, Daniela Klingebiel, and
Luc Laeven
Comment: Peter B. Kenen
Discussion Summary
- 7. On the Fiscal Implications of Twin Crises** 187
A. Craig Burnside, Martin Eichenbaum, and
Sergio Rebelo
Comment: Kenneth Kletzer
Discussion Summary
- 8. An Evaluation of Proposals to Reform the
International Financial Architecture** 225
Morris Goldstein
Comment: Andrew Berg
Discussion Summary

III. THE IMPACT

- 9. Recovery and Sustainability in East Asia** 275
Yung Chul Park and Jong-Wha Lee
Comment: Richard Portes
Discussion Summary
- 10. A Cure Worse Than the Disease? Currency
Crises and the Output Costs of IMF-Supported
Stabilization Programs** 321
Michael M. Hutchison
Comment: Gian Maria Milesi-Ferretti
Discussion Summary

11. IMF and World Bank Structural Adjustment Programs and Poverty	361
William Easterly	
<i>Comment:</i> Edwin M. Truman	
<i>Discussion Summary</i>	
12. Impacts of the Indonesian Economic Crisis: Price Changes and the Poor	393
James Levinsohn, Steven Berry, and Jed Friedman	
<i>Comment:</i> Lant Pritchett	
<i>Discussion Summary</i>	
Contributors	429
Author Index	433
Subject Index	437

Acknowledgments

This volume consists of papers that were presented at a National Bureau of Economic Research Conference, held in Monterey, California, in March 2001, together with comments and discussion. A preconference held in Cambridge in July 2000 kept everyone on track. The main purpose of the conference was to bring together a group of academics, officials in the multilateral organizations, and public- and private-sector economists to discuss issues related to the management of financial crises in the emerging-market countries.

A companion conference was held two months earlier to discuss what can be done to avoid or minimize crises in emerging-market countries in the first place. The corresponding volume is *Preventing Currency Crises in Emerging Markets*, edited by Sebastian Edwards and Jeffrey A. Frankel. These two conferences were part of a larger NBER project on exchange rate crises in emerging markets, directed by Frankel together with Martin Feldstein. The editors would like to thank the Ford Foundation for support and Feldstein for originating the entire project.

Michael P. Dooley is a research associate of the National Bureau of Economic Research and a managing editor of *International Journal of Finance and Economics*. Professor Dooley joined the faculty at the University of California, Santa Cruz in 1992 following more than twenty years' service at the Board of Governors of the Federal Reserve System and the International Monetary Fund. Jeffrey A. Frankel is the James W. Harpel Professor of Capital Formation and Growth at the Kennedy School of Government and director of the International Finance and Macroeconomics program of the National Bureau of Economic Research.

