
Abstract:
This paper examines the 1997 Asian currency crisis in the light of recent empirical and theoretical works on contagious crises. Our model discusses the effects of real exchange rate appreciation, high domestic credit and low foreign exchange reserves with respect to liquid liabilities on the Asian crisis. We find that the crisis spread to those countries with low reserves and weak fundamentals (overvalued real exchange rate and heavy lending to the private sector) after an initial shock which we identify as the path contagion appears. We also find that the crisis did not diffuse to the countries with low reserves but strong fundamentals. Notably, the results are in line with the 1994 Mexican experience.