

Does One Soros Make a Difference? A Theory of Currency Crises with Large and Small Traders

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Abstract

Do large investors increase the vulnerability of a country to speculative attacks in the foreign exchange markets? To address this issue, we build a model of currency crises where a single large investor and a continuum of small investors independently decide whether to attack a currency based on their private information about fundamentals. Even abstracting from signalling, the presence of the large investor does make all other traders more aggressive in their selling. Relative to the case in which there is no large investor, small investors attack the currency when fundamentals are stronger. Yet, the difference can be small, or non-existent, depending on the relative precision of private information of the small and large investors. Adding signalling makes the influence of the large trader on small traders' behaviour much stronger.

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