

[Home](#) > [Latin American Economic Crises](#) > Chapter

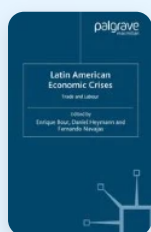
Contagion in Emerging Markets: When Wall Street is a Carrier

| Chapter

| pp 81–91 | [Cite this chapter](#)

[Save chapter](#)

[View saved research](#) >



Latin American Economic Crises

[Guillermo A. Calvo](#)

 Part of the book series: [International Economic Association](#) ((IEA))

 162 Accesses  44 Citations  3 [Altmetric](#)

Abstract

Prior to the Tequila crisis of 1994–95 in Mexico, balance-of-payments crises in emerging-market economies were quickly attributed to macro-economic mismanagement — the first and foremost suspect always being an ‘unsustainable’ fiscal deficit. The Mexican crisis questioned this conventional view because the country was emerging from a long period of stability during which important structural reform had been undertaken and, on the whole, fiscal deficit had been

brought under control. However, conventional wisdom started to shift towards focusing not just on fiscal deficit, but also on the current account deficit — undoubtedly a more encompassing measure of a country's deficit. Mexico showed some weakness in this respect, as its current account deficit was about 8 per cent in 1994 and was programmed to rise to 9 per cent in 1995. This was considered 'unsustainable' for Mexico, given its poor growth record.¹ The new crisis paradigm had hardly begun when Asia fell into disarray. The unsustainability flag could not easily be raised in this instance, especially for countries like Korea and Indonesia. For the first time, conventional wisdom turned its attention to what is likely to be central to all recent crises, namely, financial-sector weaknesses.

A draft version of this chapter was presented to the AEA 1999 New York Meetings, and the Winter Camp in International Finance, organized by the Center for International Economics (University of Maryland) and the Faculty of Economics (Universidad de los Andes, Bogotá, Colombia) in Cartagena, Colombia, 7-11 January 1999. I would like to acknowledge with thanks useful comments by Enrique Mendoza, Maury Obstfeld, and other seminar participants.

 This is a preview of subscription content, [log in via an institution](#)  to check access.

Access this chapter

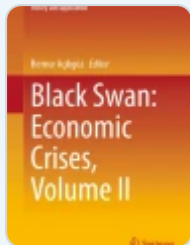
Log in via an institution →

[Institutional subscriptions](#) →

Preview

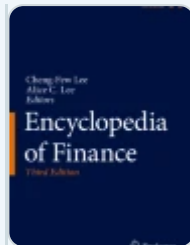
Unable to display preview. [Download preview PDF.](#)

Similar content being viewed by others



Mexican Tequila Crisis of 1994

Chapter | © 2023



The Mexican Peso Crisis

Chapter | © 2022



Rare Disasters and Fiat Currency.

Chapter | © 2026

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Economic History](#)

[Emerging Markets and Globalization](#)

[Financial Crises](#)

[International Economics](#)

[International Finance](#)

[Latin American/Caribbean Economics](#)

[Financialization in Emerging Economies](#)

References

Calvo, G. A. (1998a) 'The "Unforgiving" Market and the *Tequilazo*', in J. M. Fanelli and R. Medhora (eds), *Financial Reform in Developing Countries* (London: Macmillan - now Palgrave).

Calvo, G. A. (1998b) 'Varieties of Capital Market Crises', in G. A. Calvo and M. King (eds), *The Debt Burden and its Consequences for Monetary Policy*, ch. 7 (London: Macmillan - now Palgrave).

Calvo, G. A. (1998c) 'Understanding the Russian Virus - with Special Reference to Latin America', paper presented at the Deutsche Bank Conference 'Emerging Markets: Can They Be Crisis Free?' in Washington, DC, 3 October.

Calvo, G. A. (1998d) 'Capital Flows and Capital Market Crises: The Simple Economics of Sudden Stops', *Journal of Applied Economics*, vol. 1, no. 1 (November), pp. 35-54.

Calvo, G. A. (1999) 'Contagion in Emerging Markets: When *Wall Street* is a Carrier' (mimeo online at <http://www.bsos.umd.edu/econ/ciecrp8.pdf>).

Calvo, G. A. and E. G. Mendoza (2000) 'Rational Contagion and the Globalization of Securities Markets', *Journal of International Economics*, vol. 51 (June), pp. 79-113.

Cole, H. L. and T. J. Kehoe (1996) 'A Self-Fulfilling Model of Mexico's 1994-95 Debt Crisis', *Journal of International Economics*, vol. 41 (September), pp. 309-30.

Genotte, G. and H. Leland (1990) 'Market Liquidity, Hedging, and Crashes', *American Economic Review*, vol. 80, no. 5 (December), pp. 999-1021.

Grossman, S. J. and J. E. Stiglitz (1980) 'On the Impossibility of Informationally Efficient Markets', *American Economic Review*, vol. 70 (June), pp. 393-408.

Hausmann, R. and L. Rojas-Suarez (eds) (1996) *Volatile Capital Flows: Taming Their Impact on Latin America* (Washington, DC: Inter-American Development Bank).

Kodres, L. E. and M. Pritsker (2002) 'A Rational Expectations Model of Financial Contagion', *Journal of Finance*, vol. 57 (April), pp. 769-99.

Lucas Jr., R. E. (1976) 'Econometric Policy Evaluation: A Critique', *Carnegie-Rochester Conference Series on Public Policy*, vol. 1.

Obstfeld, M. (1994) 'The Logic of Currency Crises', *Cahiers Economiques et Monétaires*, no. 43, Banque de France.

Townsend, R. M. (1976) 'Optimal Contracts and Competitive Markets with Costly State Verification', *Journal of Economic Theory*, vol. 21 (October), pp. 265–93.

Wang, J. (1994) 'A Model of Competitive Stock Trading Volume', *Journal of Political Economy*, vol. 102, no. 1 (February), pp. 127–68.

Editor information

Editors and Affiliations

Universidad de Buenos Aires, Argentina

Enrique Bour & Daniel Heymann &

Universidad de la Plata, Argentina

Fernando Navajas

Copyright information

© 2004 International Economic Association

About this chapter

Cite this chapter

Calvo, G.A. (2004). Contagion in Emerging Markets: When Wall Street is a Carrier. In: Bour, E., Heymann, D., Navajas, F. (eds) Latin American Economic Crises. International Economic Association. Palgrave Macmillan, London. https://doi.org/10.1057/9781403943859_5

DOI	Publisher Name	Print ISBN
https://doi.org/10.1057/9781403943859_5	Palgrave Macmillan, London	978-1-349-43335-3

Online ISBN	eBook Packages
978-1-4039-4385-9	<u>Palgrave Economics & Finance</u>
	<u>Collection</u>
	<u>Economics and Finance (R0)</u>

Keywords

[Current Account](#)[Marginal Productivity](#)[Multiple Equilibrium](#)[Current Account Deficit](#)[Fiscal Deficit](#)

These keywords were added by machine and not by the authors. This process is experimental and the keywords may be updated as the learning algorithm improves.

Publish with us

[Policies and ethics](#) 

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

