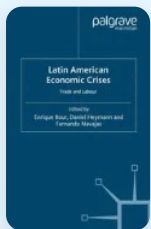


[Home](#) > [Latin American Economic Crises](#) > Chapter

# Contagion in Emerging Markets: When Wall Street is a Carrier

| Chapter

| pp 81–91 | [Cite this chapter](#)

## Latin American Economic Crises

[Guillermo A. Calvo](#) Part of the book series: [International Economic Association](#) ((IEA)) 138 Accesses  12 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.<sup>1</sup> 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→

Chapter

EUR 29.95

Price includes VAT (Poland)

- Available as PDF
- Read on any device
- Instant download
- Own it forever

Buy Chapter→

eBook

EUR 42.79

Price includes VAT (Poland)

- Available as PDF
- Read on any device
- Instant download
- Own it forever

Buy eBook→

^ **Softcover Book** **EUR 53.49**  
Price includes VAT (Poland)

- Compact, lightweight edition
- Dispatched in 3 to 5 business days
- Free shipping worldwide - [see info](#)

**Buy Softcover Book →**

^ **Hardcover Book** **EUR 53.49**  
Price includes VAT (Poland)

- Durable hardcover edition
- Dispatched in 3 to 5 business days
- Free shipping worldwide - [see info](#)

**Buy Hardcover Book →**

Tax calculation will be finalised at checkout

**Purchases are for personal use only**

[Institutional subscriptions](#) →

## Preview

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

## 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).

[Google Scholar](#)

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).

[Chapter](#) [Google Scholar](#)

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.

[Google Scholar](#)

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.

[Google Scholar](#)

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>).

[Google Scholar](#)

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.

[Article](#) [Google Scholar](#)

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.

[Article](#) [Google Scholar](#)

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

[Google Scholar](#)

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

[Google Scholar](#)

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

[Google Scholar](#)

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

[Article](#) [Google Scholar](#)

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

[Google Scholar](#)

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

[Google Scholar](#)

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

[Article](#) [Google Scholar](#)

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

[Google Scholar](#)

# 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](https://doi.org/10.1057/9781403943859_5)

[.RIS↓](#) [.ENW↓](#) [.BIB↓](#)

|   |                            |                   |
|---|----------------------------|-------------------|
| DOI   | Publisher Name             | Print ISBN        |
| <a href="https://doi.org/10.1057/9781403943859_5">https://doi.org/10.1057/9781403943859_5</a> | Palgrave Macmillan, London | 978-1-349-43335-3 |

|                   |   |
|-------------------|---|
| Online ISBN       | eBook Packages  |
| 978-1-4039-4385-9 | <a href="#">Palgrave Economics &amp; Finance Collection</a> |
|                   | <a href="#">Economics and Finance (R0)</a>                  |

# Publish with us

---

[Policies and ethics](#) [↗](#)

# Search

Search by keyword or author



## Navigation

Find a journal

Publish with us

Track your research

