

## Political instability and economic vulnerability

Matthieu Bussière , Christian Mulder 

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### Abstract

This paper analyzes and tests the influence of political instability on economic vulnerability in the context of the 1994 and 1997 crisis episodes. It constructs four political variables that aim at quantifying political instability. The paper finds that, for countries with weak economic fundamentals and low reserves, political instability has a strong impact on economic vulnerability. The estimation results suggest that including political variables in economic models does improve their power to explain and predict economic crises. The paper concludes that countries are more economically vulnerable during, and especially following, election periods, and when election results are less stable than at other times. Copyright © 2000 John Wiley & Sons, Ltd.

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