

What Is International Financial Contagion?

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Abstract

Despite the growing popularity of blaming 'contagion' for international financial crises, contagion remains an elusive concern. Without a clear understanding of financial contagion and the mechanisms through which it works, we can neither assess the problem nor design appropriate policy measures to control it. This paper organizes and evaluates recent research on international financial contagion. The main finding is that the different mechanisms by which a crisis can spread greatly differ from each other both in their causes and implications. Policy measures that do not take these differences into account may do more harm than good.

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