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Sudden Flight and True Sudden Stops

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Abstract

We extend the sudden stops literature by recognizing that crisis episodes can be caused by the retreat of global investors, as is commonly assumed but not shown in the extant literature, or by the sudden flight of local investors. We find that almost half of the previously defined sudden stops are actually episodes of sudden flight in which gross inflows resume quickly and strongly. In contrast, in true sudden stops inflows cease for an extended period and, compared to sudden flight, these episodes are bunched and are associated with greater slowdowns in economic activity and sharper currency depreciations. We also show that the empirical regularities of sudden flight and true sudden stops are consistent with theoretical models that incorporate gross capital flows and information asymmetries.

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Citing Literature

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