



The Unholy Trinity of Financial Contagion

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JOURNAL OF ECONOMIC PERSPECTIVES

VOL. 17, NO. 4, FALL 2003

(pp. 51-74)

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Article Information

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Abstract

Over the last 20 years, some financial events, such as devaluations or defaults, have triggered an immediate adverse chain reaction in other countries—which we call fast and furious contagion. Yet, on other occasions, similar events have failed to trigger any immediate international reaction. We argue that fast and furious contagion episodes are characterized by "the unholy trinity": (i) they follow a large surge in capital flows; (ii) they come as a surprise; and (iii) they involve a leveraged common creditor. In contrast, when similar events have elicited little international reaction, they were widely anticipated and took place at a time when capital flows had already subsided.

Citation

Kaminsky, Graciela, L., Carmen M. Reinhart, and Carlos A. Végh. 2003. "The Unholy Trinity of Financial Contagion." *Journal of Economic Perspectives*, 17 (4): 51-74.

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