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Currency Crises, Capital-Account Liberalization, and Selection Bias

Reuven Glick, Xueyan Guo, Michael Hutchison

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Abstract

Are countries with unregulated capital flows more vulnerable to currency crises? Efforts to answer this question properly must control for self-selection bias, because countries with liberalized capital accounts may also have sounder economic policies and institutions that make them less likely to experience crises. We employ a matching and propensity-score methodology to address this issue in a panel analysis of developing countries. Our results suggest that, after controlling for sample selection bias, countries with liberalized capital accounts experience a lower likelihood of currency crises.

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