

Currency Crises, Capital-Account Liberalization, and Selection Bias

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The Review of Economics and Statistics (2006) 88 (4): 698–714.

<https://doi.org/10.1162/rest.88.4.698> [Article history](#) 

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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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The Review of Economics and Statistics

Online ISSN: 1530-9142 Print ISSN: 0034-6535



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