AN ASSESSMENT OF THE DETERMINANTS OF FINANCIAL CRISIS IN EMERGING MARKET ECONOMIES

Özhan Tuncay
Department of Economics,
Faculty of Economics and Administrative Sciences,
İzmir Katip Çelebi University, Turkey

ABSTRACT

International capital flows have been considered beneficial both for borrowers and lenders. The case for liberalization of capital flows is founded on free trade and efficient allocation of resources. Capital movements might help to finance domestic investments, increase economic growth and Standard of living and might enable households to smooth their consumption out. For developed countries, capital flows enable portfolio diversification and higher income for pension funds. However, large capital inflows might have disastrous effects such as financial crisis originating from rapid monetary expansion, increasing inflation and finally real Exchange rate appreciation. Hence, huge capital inflows may pose serious tradeoffs for economic policy. The aim of this paper is to investigate the determinants of financial crisis in 9 Developing Countries using Feasible Generalized Least Squares (FGLS) technics over the period of 1994-2010. The data were obtained from IMF database. Regression results indicated that two of the independent variables statistically explained financial crisis.

Keywords: Finance Crises, Money Market, IMF, FGLS, Capital Mobility.
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