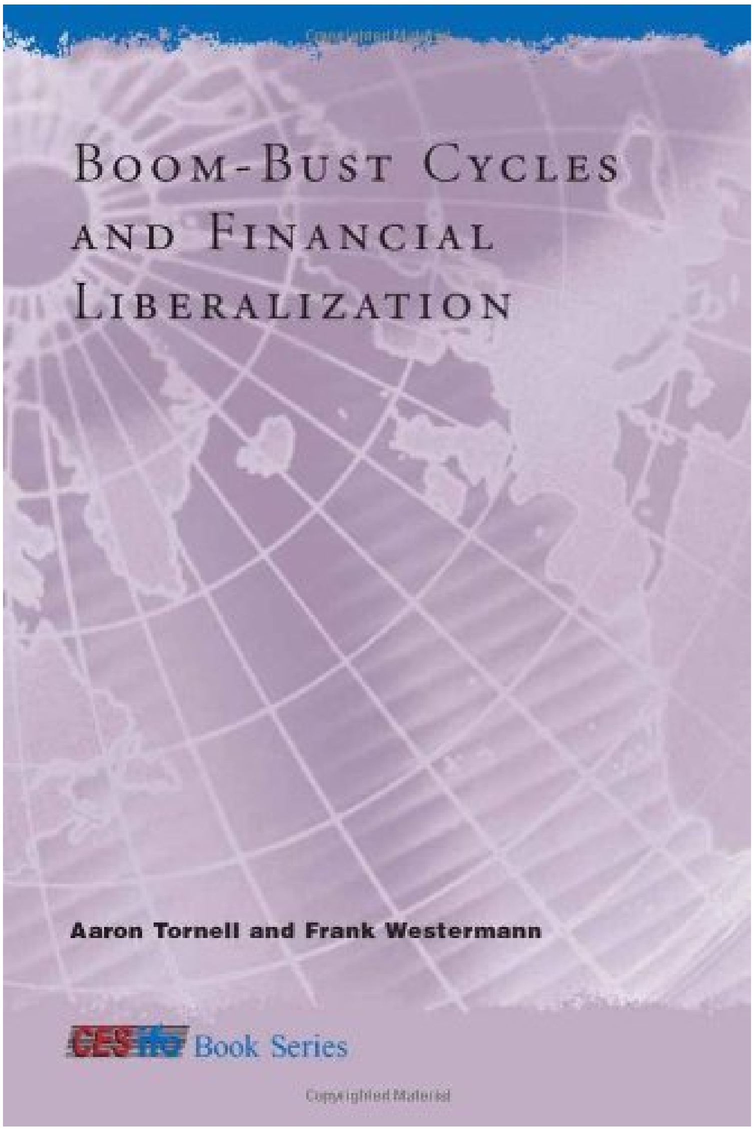
Boom-Bust Cycles and Financial Liberalization (CESifo Book Series)

Aaron Tornell



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Aaron Tornell : Boom-Bust Cycles and Financial Liberalization (CESifo Book Series) before purchasing it in order to gage whether or not it would be worth my time, and all praised Boom-Bust Cycles and Financial Liberalization (CESifo Book Series):

The volatility that has hit many middle-income countries (MICs) after liberalizimgtheir financial markets has prompted critics to call for new policies to stabilize these boom-bustcycles. But, as Aaron Tornell and Frank Westermann point out in this book, over the last two decadesmost of the developing countries that have experienced lending booms and busts have also exhibitedthe fastest growth among MICs. Countries with more stable credit growth, by contrast, haveexhibited, on average, lower growth rates. Factors that contribute to financial fragility thusappear, paradoxically, to be a source of long-run growth as well. Tornell and Westermann analyzeboom-bust cycles in the developing world and discuss how these cycles are generated by credit marketimperfections. They explain why the financial liberalization that allows countries to overcomeimperfections impeding rapid growth also generates the financial fragility that leads to greatervolatility and occasional crises. The conceptual framework they present illustrates this linkage andallows Tornell and Westermann to address normative questions regarding liberalization policies.Theauthors also characterize key macroeconomic regularities observed across MICs, showing that creditmarkets play a key role not only in boom-bust episodes but in the strong "credit channel" observedduring tranquil times. A theoretical framework is then presented that explains how credit marketimperfections can account for these empirical patterns. Finally, Tornell and Westermann providemicroeconomic evidence on the credit market imperfections that drive the results of the theoreticalframework, finding that asymmetries between tradables and nontradables are key to understanding thepatterns in MIC data.

"The authors successfully resolve what has been the most vexing problem in development finance: Should middle-income countries liberalize domestic interest rates and free international capital flows in the presence of domestic credit market distortions and moral hazard from government rescue operations? Tornell and Westermann show that financial fragility, and the possibility of major crashes, naturally increase with such financial liberalization. But such liberalization also stimulates growth, albeit unevenly, over the longer term. A must-read for students of development finance."--Ronald I. McKinnon, William D. Eberle Professor of International Economics, Stanford UniversityAbout the AuthorAaron Tornell is Professor of Economics at UCLA, an NBER Research Fellow, and a CESifo Research Fellow.Frank Westermann is Chair for International Economic Policy in the Department of Economics and Business Administration,University of Osnabrueck, Germany.