Abstract (summary):

Emerging markets have experienced a number of crises in the past two decades. Much attention has been given to their characteristics as the source of crises and their severity. The characteristics of emerging markets in which they tend to rely heavily on foreign capital inflows that are typically short-term make them more susceptible to sharp changes in investors' confidence, and thus crises.

This dissertation begins with the analysis of underlying vulnerabilities to currency crises, banking crises, and sudden stops in 19 emerging market economies over the period of 1980-2003. Although these three types of crises are likely to have common origins, the findings show that they tend to be triggered by different factors. This dissertation further investigates the effect of these vulnerabilities on output costs of crises. The objective of this analysis is to see whether the factors that make crises more likely also make them more costly. The findings suggest that output costs of crises depend not only on the factors triggering crises but also on other factors that are not associated with the probability of crises. In some cases, the latter can be a major factor contributing to the severity of crises. The evidence on output costs confirms that the characteristics of emerging markets are not only a source of growing crises incidence but also a source of more costly crises.

Banking crises are costly because they can impose not only output costs but also fiscal costs on the economy. Therefore, the last analysis focuses on fiscal costs of banking crises and the role of crisis management policies. Empirical literature on fiscal costs puts forward the use of strict rather than accommodating crisis resolution policies. However, this dissertation finds that some accommodating policies were in fact successful in reducing fiscal costs in emerging market economies and the effectiveness of crisis management policies depends significantly on initial macroeconomic conditions and shocks.