Chapter VIII

International Capital Movements, Currency Crisis, and ICT Innovation

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Abstract

This chapter investigates the effects generated by the currency crisis. The countries experienced the currency turmoil confronted financial crisis, economic deterioration, and increase of unemployment. This chapter empirically examines the effect of currency depreciation on the real GDP and the unemployment rates in those countries by employing the structural vector autoregressive model, which attempts to clarify whether identified supply or demand shocks can be caused by exchange rate depreciation. This study suggests currency crisis might generate demand shock, to result in harmful impacts to real economy in those countries. Those could be considered as negative effects of the ICT innovation.
Introduction

In the 1990s, the currency turmoil exerted a great impact on emerging market countries such as Mexico, East Asian countries, Russia, Brazil, Argentina and so on. The crisis affected a broad spectrum of countries including not only those with prodigious signs but also those with sound economic conditions. Developments of theories on the currency crisis suggest self-fulfilling expectations and fundamental economic deterioration as the factors responsible for the crisis.

However, the institutional and technical changes such as liberalization of capital movements in the emerging countries or developments of information and communication technology (ICT) are noteworthy in an analysis of the currency turmoil. These changes caused instantaneous movements of capital among the countries. This chapter discusses the relationship observed between ICT innovation and the currency crisis in the 1990s.

This chapter emphasizes on the effects caused by the currency turmoil. It resulted in financial crisis, economic deterioration, and increase of unemployment in these countries. I will perform an empirical study on the effect of currency depreciation on the real GDP or the unemployment rates by employing the structural vector autoregressive model. Although, for this purpose, I essentially employ the model developed by Blanchard and Quah (1989), my empirical work attempts to clarify whether identified
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