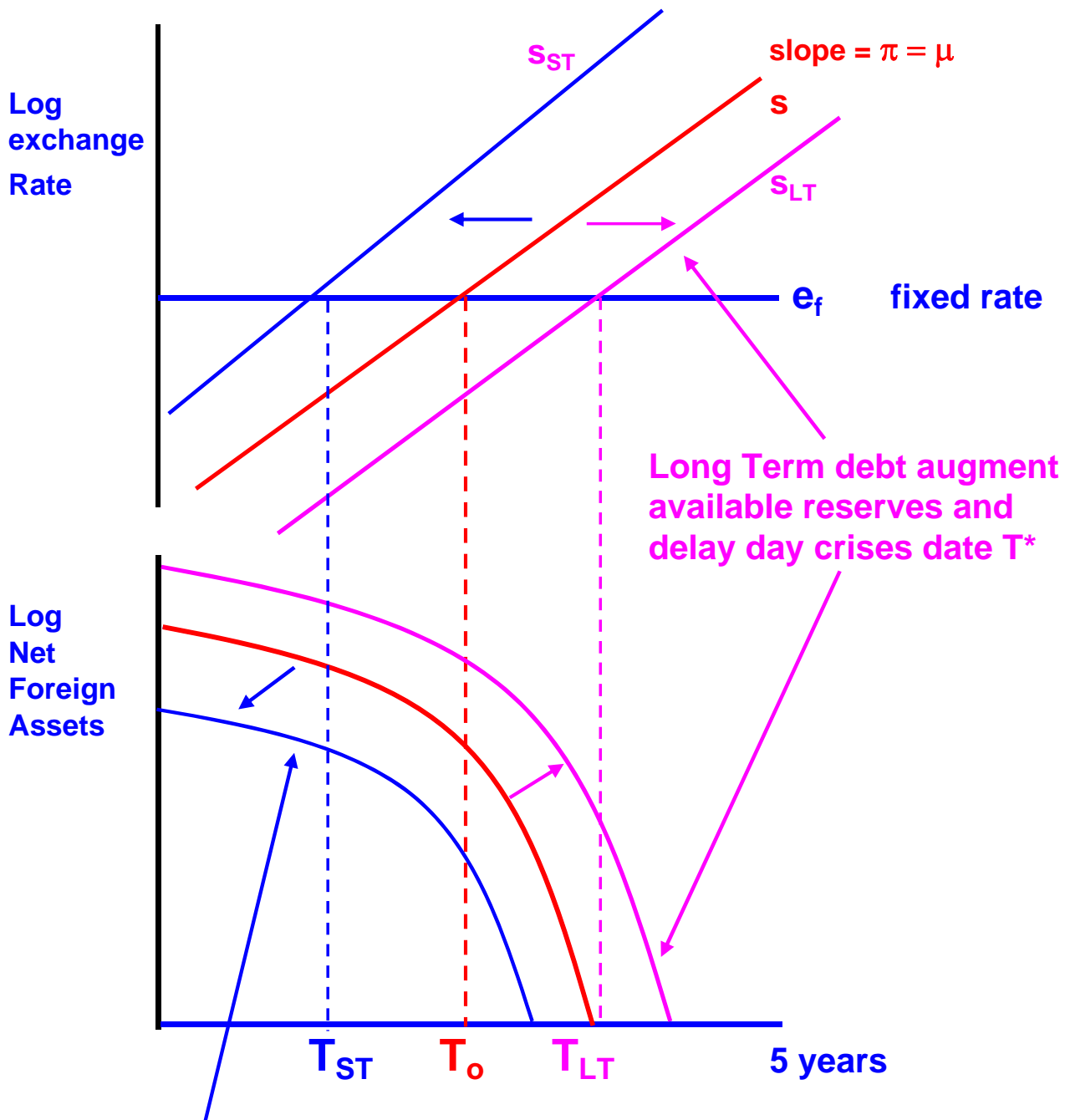


Figure G-1-2: Term mismatch: short vs. long term capital flows (merging Generation I and II concerns)



Short-term debt (often bank to bank) reduce available net foreign assets bringing date T closer: the "crisis" date the exchange rate regime switches from fixed to flexible (and all reserves are exhausted).

Generation 1: Krugman (1979) Speculative Attack Model

Generation 3: Chang and Velasco (1999) Liquidity Crisis Model driven by ST Bank to Bank lending

*note long term debt does not prevent balance sheet effects