The Volatility Machine

Emerging Economies

and the Threat of

Financial Collapse

Michael Pettis



2001

Contents

Introduction xi

Part I The Structure of Financial Crises

1. Capital Structure and Policy Collapse: The Financial Crisis of the Late 1990s 3

ji

2. Market Structure Issues 24

Part II Global Liquidity and Capital Flows

- Why Does Rich-Country Capital Flow to Poor Countries? 35
- 180 Years of Liquidity Expansion and International Lending 51
- 5. The Contraction of International Lending 72

Part III The Corporate Finance of Crises

- 6. The Theory of Capital Structure and Financial Risk $\,$ 91
- 7. The Capital Structure Trap 124
- 8. Toward a Theory of Sovereign Capital Structure Management 146

9. Debt Restructurings within a Corporate Finance Framework 172

Part IV Conclusion

10. Conclusion: The New Financial Architecture 189

Appendix: The Option Characteristics of Sovereign Debt 201

Bibliography 217

Index 229