

Abstract

In this paper we investigate whether cross-sectional information: from local equity markets contained information on devaluation expectations during the Asian crisis. We concentrate on the information content of equity prices as these markets were in general the largest and most liquid at the time and, thus, presumably the best carriers of information. Using an event-study approach to the period leading up to each of the devaluations which occurred during the Asian crisis (namely those of Indonesia, Korea, Malaysia, the Philippines and Thailand), we compare returns in the equity prices of exporting and non-exporting firms. This is based on the assumption that the expectation of devaluation should help the stock of exporting firms outperform those of non-exporting firms. Overall we do find some evidence supporting this hypothesis, although at different degrees depending on the country. Our second finding is that local equity market prices, as reflected in the different patterns seen for exporters and non-exporters, did to at least to some extent price in the possibility that the Thai devaluation would be followed by other countries in the region.

JEL classification: F31, G15 and G14.

Keywords: Asian crisis, currency crisis, information content of local equity market prices.