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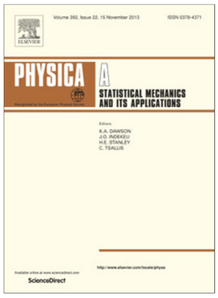

A new & simple model of currency crisis: Bifurcations and the emergence of a bad equilibrium

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***Highlights (for review)**

The Highlights:

- This paper examines currency crisis in a dynamic setting with agents who don't hold rational expectations.
- In a simple and new setting the paper highlights the fragility of the foreign exchange market: it demonstrates the possibility of a collapse of the currency due to a progressive loss of reserves.
- It is important to note that a collapse is not triggered by the two known sources - a *bad policy, or bad luck,* but due to a regime-shift from a stable to an unstable and unique steady state – *bad equilibrium*.
- The paper hence proffers a new explanation of currency crisis: a crisis that erupts even when there is no evidence of bad policy, or of multiple equilibria (bad luck).
- The model is further extended to a case of heterogeneous agents.