

“Impossible Trinity” Hypothesis: The causality of trilemma and macro policy performance

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Abstract:

This paper investigates how the trilemma policy and economic performance mutually affect each other in developing and emerging countries between 1990 and 2017. We find that higher capital openness lowers output volatility and inflation rate. However, trilemma policy decision is also affected by economic performance. Under high inflation regime, a country is pressured to reduce their financial integration by restricting capital openness. During the heightened global risk and financial crisis, a country is pressured to lower exchange rate stability.

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