

[Working Paper No. 879](#)

Keep in mind

La serie Borradores de Economía es una publicación de la Subgerencia de Estudios Económicos del Banco de la República. Los trabajos son de carácter provisional, las opiniones y posibles errores son responsabilidad exclusiva del autor y sus contenidos no comprometen al Banco de la República ni a su Junta Directiva.

AUTHOR OR EDITOR

Julian A. Parra

Carmiña O. Vargas

We argue that international lenders take into account that taxes (or subsidies) affect borrowers' available income for debt repayments. Using an endowment-economy model, we show that by incorporating this fact into the analysis of financial crises from the pecuniary externality perspective, ex-post interventions are completely ineffective to manage crises and, instead, ex-ante capital controls are useful for correcting the externality that stems from the underestimation of the social costs of decentralized debt decisions.

The opinions expressed here do not necessarily correspond neither to the Banco de la República nor its Board of Directors.

Update 10:30 a.m., 03/05/2016