

Accumulation of Reserves and Keeping Up with the Joneses: The Case of LATAM Economies

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Summary

In this paper we explore the ‘Mrs.Machlup's Wardrobe’ hypothesis to understand the growing trend of Latin American economies amassing large stocks of international reserves. Using annual data from 1980 to 2007, we examine the relevance of the argument that economies continue to add to their existing reserves stock in order to keep up with the Joneses. We find strong evidence of presence of the Joneses effect. The effect is robust to the inclusion of traditional determinants of reserve accumulation as well as region specific factors including commodity exports that set the Latin American economies apart from other emerging economies.