

## **Are Speculative Attacks Triggered by Sunspots? A New Test**

**Nikola A. Tarashev**

[nikola.tarashev@bis.org](mailto:nikola.tarashev@bis.org)

The empirical methodology of the paper establishes if a speculative attack, which is accounted for via sunspots in the presence of multiple equilibria, could have been in fact driven uniquely by economic fundamentals. The methodology is based on the theoretical models of Bertola and Svensson (1993) and Tarashev (2003). The first model captures robust stylised facts from target zone regimes, whereas the second one implies that both unique and multiple equilibria can account for violent speculative attacks. The characteristics of the theoretical foundations and their implications for the employed statistical test distinguish the paper from previous structural empirical analyses of market bets against pegged currencies. The methodology is applied to the experience of two ERM countries in the fall of 1992. The attack on the French Franc is found to be triggered by sunspots, whereas it is impossible to determine whether a similar scenario or the state of the economy alone underpins the currency crisis in Italy.