

International Macroeconomics: Topics on external debt

Prof.: Hernán D. Seoane (UC3M)

E-mail: hseoane@eco.uc3m.es

(Tentative) Main Objective

We introduce a simple small open economy model to study topics on external debt. We study the role of policy temporariness, financial constraints and default incentives to capture stylized facts of international borrowing. We focus on stylized facts, modelling strategies and quantitative solution methods

(Tentative) Class Schedule

Classes 1/2: Introduction to small open economy models and motivation

- The small open economy model
- Temporary versus permanent shocks in the endowment model
- Algebraic solution and the permanent income hypothesis

Classes 1/2 & 2: Policy changes, credibility and temporariness

- Baseline model
- Tax reforms
- Exchange rate stabilization programs
- The role of policy temporariness and external debt dynamics

References:

1. Schmitt-Grohe, S. and Uribe M (2016). Open Economy Macroeconomics Ch11
2. Calvo, G. (1986) "Temporary stabilization: predetermined exchange rates", JP
3. Calvo, G. (1987) "Balance of payments crisis in a cash in advance economy", JMCB
4. Calvo, G. (1987) "On the costs of temporary policy", JDE
5. Calvo, G., and Végh, C. (1993) "Exchange-rate based stabilisation under imperfect credibility." Open-economy macroeconomics. Palgrave Macmillan UK.

Class 3: Overborrowing

- Definition and the no overborrowing result
- Overborrowing and endogenous prices
- Solution methods for occasionally binding constraint models

References:

6. Schmitt-Grohe, S. and Uribe M (2014). Open Economy Macroeconomics Ch10
7. Bianchi, J. (2011). Overborrowing and Systemic Externalities in the Business Cycle. The American Economic Review, 101(7), 3400-3426.
8. Uribe, M. (2006). On overborrowing. The American economic review, 96(2), 417-421.

Classes 4 & 5: Default and models of endogenous risk premium

- Sovereign default
- Volatility and sovereign default
- Sovereign default and private sector lending
- Solution methods for models with strategic default

References:

1. Schmitt-Grohe, S. and Uribe M (2014). Open Economy Macroeconomics Ch11
2. Arellano, C. (2008). Default risk and income fluctuations in emerging economies. The American Economic Review, 690-712.
3. Yue, V. Z. (2010). Sovereign default and debt renegotiation. Journal of International Economics, 80(2), 176-187.
4. Mendoza, E. G., & Yue, V. Z. (2012). A general equilibrium model of sovereign default and business cycles. The Quarterly Journal of Economics, 127(2), 889-946.
5. Seoane, H. D. (2014). Time-Varying Volatility, Default and the Sovereign Risk Premium.
6. Pancrazi, Seoane, Vukotic (2015). "Sovereign Risk, Private Credit and Stabilization Policies "

Evaluation

Take Home Final