

Academic Year: ( 2020 / 2021 )

Review date: 09-07-2020

Department assigned to the subject: Economics Department

Coordinating teacher: YURDAGUL , EMIRCAN

Type: Electives ECTS Credits : 4.0

Year : 2 Semester : 2

**REQUIREMENTS (SUBJECTS THAT ARE ASSUMED TO BE KNOWN)**

Macroeconomics I, Macroeconomics II and Macroeconomics III

**OBJECTIVES**

The objective of the course is to study the contemporaneous models of sovereign default, and the ways they can help us reconcile the empirical regularities of emerging markets' borrowing.

**DESCRIPTION OF CONTENTS: PROGRAMME**

1. Big picture, motivating facts on Sovereign Default.

2. Building blocks of sovereign default literature.

3. Recap of numerical tools.

- Approximating AR(1) processes.
- Smart discrete search.
- Solving the basic setup.

4. Sovereign bonds with long maturity bonds.

- Exogenous maturity
- Endogenous maturity

5. Distressed debt restructurings.

- Empirical facts
- Modeling endogenous restructuring

6. News about the future

- News with short bonds.
- News and endogenous maturity

7. Enriching the lenders' side

- Risk averse international lenders:
- Extension with heterogeneity among lenders
- Sovereign defaults and reserves
- Domestic lending through a banking sector

8. Endogenous sudden stops

- Classic papers on self-fulfilling crises.
- Quantitative analysis with additional features

**LEARNING ACTIVITIES AND METHODOLOGY**

Learning activities

Lectures

Group and individual assignments

Reading assignments and class discussions

Office hours

## Methodology

Lectures in which the professor teaches basic concepts, distributes assignments, and presents the readings necessary to complement the class activities.

Critical readings of the material presented by the professor.

One assignment of writing a referee report on a seminal or contemporary paper.

One numerical assignment of solving one of the papers taught in the course by modifying a few assumptions.

## ASSESSMENT SYSTEM

Term project (numerical assignment on one of the papers in the syllabus) (25%)

Referee report assignment (15%)

Final exam (60%)

**% end-of-term-examination:** 60

**% of continuous assessment (assignments, laboratory, practicals...):** 40

## BASIC BIBLIOGRAPHY

- Aguiar, M., M. Amador, H. Hopenhayn, and I. Werning Take the Short Route: Equilibrium Default and Debt Maturity, -, 2019
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- Aguiar, M., and G. Gopinath Defaultable debt, interest rates and the current account, Journal of International Economics, 69, 64-83., 2006
- Arellano, C. Default Risk and Income Fluctuations in Emerging Economies, American Economic Review, 98(3), 690-712, 2008
- Bianchi, J., J. C. Hatchondo, and L. Martinez International Reserves and Rollover Risk, American Economic Review, 108(9), 2629-2670., 2018
- Bocola, L., and A. Dovis Self-Fulfilling Debt Crises: A Quantitative Analysis, NBER Working Papers 22694, National Bureau of Economic Research, Inc., 2016
- Chatterjee, S., and B. Eyigungor Maturity, Indebtedness, and Default Risk, American Economic Review, 102(6), 2674-99, 2012
- Cole, H. L., and T. J. Kehoe Self-Fulfilling Debt Crises, Review of Economic Studies, 67(1), 91-116., 2000
- Cruces, J. J., and C. Trebesch Sovereign Defaults: The Price of Haircuts, American Economic Journal: Macroeconomics, 5(3), 85-117, 2013
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- Eaton, J., and M. Gersovitz Debt with potential repudiation: theoretical and empirical analysis, Review of Economic Studies, 48, 289-309, 1981
- Gordon, G., and S. Qiu A Divide and Conquer Algorithm for Exploiting Policy Function Monotonicity, Caep Working Papers 2015-002, Center for Applied Economics and Policy Research, Economics Department, Indiana University Bloomington, 2015
- Hatchondo, J. C., and L. Martinez Long-duration bonds and sovereign defaults, Journal of International Economics, 79(1), 117-125., 2009
- Sanchez, J. M., H. Sapriza, and E. Yurdagul Sovereign default and maturity choice, Journal of Monetary Economics, 95(C), 72-85, 2018