

13I022

## Sovereign Debt and International Financial Architecture

### Overview and Objectives

This course provides the analytical and empirical tools necessary to address these questions: Why do countries borrow? Why do they repay their debts in the absence of international courts? What is the effect of international borrowing on domestic financial markets and macroeconomic stability? Why do countries often borrow too much? Is there a role for capital controls? Under what conditions is debt forgiveness optimal? What is the optimal way of restructuring defaulted debts? What happened during the European sovereign debt crisis?

### Course Outline and Materials

#### I. Background Reading

Obstfeld, M., and A. Taylor, Global Capital Markets: Integration, Crisis, and Growth, Cambridge University Press, 2004

\* Reinhart, C., and K. Rogoff, This time is different: Eight centuries of financial folly, Princeton University Press, 2009

#### II. Why countries repay their debts? Sanctions and reputation

\* Obstfeld, M., and K. Rogoff, Foundations of International Macroeconomics, Ch. 6.1

Eaton, J., and R. Fernández, "Sovereign debt," in G. Grossman and K. Rogoff (eds.), Handbook of International Economics III, 1995, sections 1 and 2

Bulow, J., and K. Rogoff, "Sovereign debt: Is to forgive to forget?" *American Economic Review* 79, 1989

\* Cruces, J., and C. Trebesch, "Sovereign defaults: The price of haircuts," *American Economic Journal: Macroeconomics* 5, 2013

13I022

3 ECTS

## Sovereign Debt and International Financial Architecture

Gelos, G., R. Sahay, and G. Sandleris, "Sovereign borrowing by developing countries: What determines market access?" *Journal of International Economics* 83, 2011

Rose, A., "One reason countries pay their debts: Renegotiation and international trade," *Journal of Development Economics* 77, 2005

Tomz, M., Reputation and international cooperation: Sovereign debt across three centuries, Princeton University Press, 2007

### III. International and domestic financial markets

\* Obstfeld, M., and K. Rogoff, Foundations of International Macroeconomics, Ch. 6.4

\* Broner, F., A. Martin, and J. Ventura, "Sovereign risk and secondary markets," *American Economic Review* 100, 2010

\* Martin, A., and F. Taddei, "International capital flows and credit market imperfections: A tale of two frictions," *Journal of International Economics* 89, 2013

Gennaioli, N., A. Martin, and S. Rossi, "Sovereign default, domestic banks, and financial institutions," *Journal of Finance*, 2014

Caballero, R., and A. Krishnamurthy, "International and domestic collateral constraints in a model of emerging market crises," *Journal of Monetary Economics* 48, 2001

\* Kose, M., E. Prasad, and M. Terrones, "Financial integration and macroeconomic volatility," *IMF Staff Papers* 50, 2003

\* Kose, M., E. Prasad, K. Rogoff, and S. Wei, "Financial globalization: A reappraisal," *IMF Staff Papers* 56, 2009

13I022

## Sovereign Debt and International Financial Architecture

Lewis, K., "Trying to Explain Home Bias in equities and Consumption," *Journal of Economic Literature* 37, 1999

Kaminsky, G., and C. Reinhart, "The twin crises: The causes of banking and balance-of-payments problems," *American Economic Review* 89, 1999

Arteta, C., and G. Hale, "Sovereign debt crises and credit to the private sector," *Journal of International Economics* 74, 2008

### IV. International financial architecture

\* Cole, H., and T. Kehoe, "Self-fulfilling debt crises," *Review of Economic Studies*, 2000.

\* Broner, F., A. Erce, A. Martin, and J. Ventura, "Sovereign debt markets in turbulent times: Creditor discrimination and crowding-out effects," *Journal of Monetary Economics*, 2014

Jeanne, O., "Debt maturity and the international financial architecture," *American Economic Review*, 2009

Broner, F., G. Lorenzoni, and S. Schmukler, "Why do emerging economies borrow short term?" *Journal of the European Economic Association*, 2013.

\* Obstfeld, M., and K. Rogoff, Foundations of International Macroeconomics, Ch. 6.2.

Eaton, J., and R. Fernández, "Sovereign debt," in G. Grossman and K. Rogoff (eds.), Handbook of International Economics III, 1995, sections 3 and 4.

\* Fischer, S., and W. Easterly, "The economics of the government budget constraint," *World Bank Research Observer* 5, 1990.

13I022

3 ECTS

## Sovereign Debt and International Financial Architecture

Krugman, P., "Financing versus forgiving a debt overhang," *Journal of Development Economics*, 1988.

\* Krugman, P., "Reducing developing country debt," in *Currencies and Crises*, MIT Press, 1992.

\* Bolton, P., and O. Jeanne, "Structuring and restructuring sovereign debt: The role of a bankruptcy regime," *Journal of Political Economy* 115, 2007.

Rogoff, K., and J. Zettelmeyer, "Bankruptcy procedures for sovereigns: A history of ideas, 1976–2001," *IMF Staff Papers* 49, 2002.

### Evaluation

Final Exam