

## **International Macroeconomics: Topics on external debt**

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(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**

- A few business cycle facts in emerging economies
- The small open economy model
- Temporary versus permanent shocks in the endowment model
- Algebraic solution and the permanent income hypothesis

#### **References:**

1. Schmitt-Grohe, S. and Uribe M (2016). Open Economy Macroeconomics Ch1 and 2
2. Sargent, T. and Ljungqvist, L. (2004). Recursive Macroeconomic Theory Ch17
3. Calderon, C. and Fuentes, R. (2010), "Characterizing the Business Cycles of Emerging Economies". Policy Research Working Paper 5343, World Bank

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

- Baseline model
- Tax reforms
- Exchange rate stabilization programs
- Interest rate rules and credibility
- 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", Journal of Political Economy
3. Calvo, G. (1987) "Balance of payments crisis in a cash in advance economy", Journal of Money, Credit and Banking
4. Calvo, G. (1987) "On the costs of temporary policy", Journal of Development Economics

5. Calvo, G., and Végh, C. (1993) "Exchange-rate based stabilisation under imperfect credibility." Open-economy macroeconomics. Palgrave Macmillan UK.

### **Class 3: Credit frictions – borrowing constraints**

- Definition and the no overborrowing result
- Overborrowing and endogenous prices
- Stock collateral constraints
- Flow collateral constraints
- Normative analysis
- Solution methods for occasionally binding constraint models

#### References:

1. Schmitt-Grohe, S. and Uribe M (2014). Open Economy Macroeconomics Ch12
2. Bianchi, J. (2011). Overborrowing and Systemic Externalities in the Business Cycle. The American Economic Review, 101(7), 3400-3426.
3. 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 facts
- Sovereign default baseline Eaton and Gersovitz model
- 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 "