

Sovereign Debt Crises: Theory, Evidence and Europe

This course provides an overview of sovereign debt crises from theoretical, empirical and policy points of view. It covers traditional theories of sovereign debt that emphasize reputation and sanctions, new theories that emphasize the interplay between international and domestic financial markets, and the relevant empirical evidence. It discusses the distinction between rollover/liquidity and solvency crises and the appropriate policy responses. The last part of the course is devoted to an analysis of the European crisis.

1. What are the costs of sovereign default? Reputation and sanctions

* Obstfeld, M., and K. Rogoff, 1996, Foundations of International Macroeconomics, Ch. 6.1

Eaton, J., and R. Fernández, 1995, "Sovereign debt," Sec. 1 and 2, Handbook of International Economics III

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

* Cruces, J., and C. Trebesch, 2013, "Sovereign defaults: The price of haircuts," *AEJ: Macroeconomics*

Panizza, U., F. Sturzenegger, and J. Zettelmeyer, 2009, "The Economics and Law of sovereign debt and default," *Journal of Economic Literature*

2. Market structure and defaults: Secondary markets and collateral damage

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

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

Broner, F., and J. Ventura, 2013, "Rethinking the effects of financial liberalization," mimeo CREI

* Reinhart, C., and K. Rogoff, 2011, "From financial crash to debt crisis," *American Economic Review*

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

3. Rollover crises: Lender of last resort and moral hazard

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

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

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

Eichengreen, B., K. Kletzer, and A. Mody, 2006, "The IMF in a world of private capital markets," *Journal of Banking and Finance*

4. Solvency crises: Debt overhang, buybacks and restructuring

* Obstfeld, M., and K. Rogoff, 1996, Foundations of International Macroeconomics, Ch. 6.2

Eaton, J., and R. Fernández, 1995, "Sovereign debt," Sec. 3 and 4, Handbook of International Economics III

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

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

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

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

5. Lessons for Europe

* Acharya, V., I. Drechsler, and P. Schnabl, 2014, "A pyrrhic victory? Bank bailouts and sovereign credit risk," *Journal of Finance*

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

* Reinhart, C., V. Reinhart, and K. Rogoff, 2012, "Public debt overhangs: Advanced-economy episodes since 1800," *Journal of Economic Perspectives*

* Goldfajn, I., and R. Valdes, 1999, "The aftermath of appreciations," *Quarterly Journal of Economics*

* Calvo, G., and C. Végh, 1999, "Inflation stabilization and BOP crises in developing countries," in Handbook of Macroeconomics I, Elsevier Science

* Reinhart, C., and B. Sbrancia, 2011, "The liquidation of government debt," mimeo Harvard

* Reinhart, C., J. Kirkegaard, and B. Sbrancia, 2011, "Financial repression redux," *Finance and Development*