

Project update

I began the year by completing my first chapter which is the basis of my paper, "Country solidarity and Self-fulfilling crises." I show that sovereign yields reflect investors' expectations for the strategic interaction between large agents. This was pronounced in the recent European debt crises as investors 'priced in' bailouts and debt restructuring. I dub the self-interested bailouts by countries as "solidarity". I show that this reduces the probability of a self-fulfilling crisis (a la Cole and Kehoe 2000) but generally fails to restore a fundamental equilibrium due to a lack of credibility and political risk. I further highlight the conflict between credibility and enforceability of sanctions, which is introduced by large international agents.

I have started work on a second large project on multiplicity in exchange rates. In particular, I consider international portfolio allocation problems in open economy general equilibrium. Lack of commitment on behalf of governments on policy introduces equilibrium multiplicity. I draw parallels to Peso events and disaster risk, and show that this can explain persistent risk premia observed in currency markets. The project yields insight on US hegemony and a potential future role for the Euro.

I will be undertaking some empirical research related to this project over the summer at the European Central Bank, DG\I. The focus will be on portfolio flows which arise due to changes in risk of European assets.

Early this year I presented at the Economics faculty workshop and will soon be presenting at the RES Symposium (<https://editorialexpress.com/conference/resjunsym/program/resjunsym.html>) and the CERF Calvacade. I will also be participating in an ECB conference and have other outstanding submissions.