

# Accepted Manuscript

A model of sovereign debt with private information

Toan Phan

PII: S0165-1889(17)30163-X  
DOI: [10.1016/j.jedc.2017.07.011](https://doi.org/10.1016/j.jedc.2017.07.011)  
Reference: DYNCON 3462

To appear in: *Journal of Economic Dynamics & Control*

Received date: 12 December 2016  
Revised date: 25 July 2017  
Accepted date: 27 July 2017

Please cite this article as: Toan Phan, A model of sovereign debt with private information, *Journal of Economic Dynamics & Control* (2017), doi: [10.1016/j.jedc.2017.07.011](https://doi.org/10.1016/j.jedc.2017.07.011)



This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

# A model of sovereign debt with private information

Toan Phan\*

July 31, 2017

## Abstract

This paper develops a sovereign debt model with investment, in which the country's productivity shock has two components: a private shock (such as a change in domestic institutions) and a public shock (such as a publicly observed technological change). The government observes the private shock, but foreign investors do not. The government then uses debt repayment and default settlement as costly signals of the private shock. The signaling mechanism generates an endogenous cost of default. Furthermore, the combination of the public shock and the private shock loosens the relationship between default cycles and output in equilibrium: defaults can happen when output is above trend, and settlements can happen when output is below trend, as seen in data. The model also predicts a correlation between default cycles and foreign investment, as well as counter-cyclical sovereign spreads and trade balance, which are consistent with data.

Keywords: Sovereign default; signaling; foreign direct investment; small open economy

JEL classifications: F34; F4; G32

---

\*The University of North Carolina at Chapel Hill, Gardner Hall CB3305, Chapel Hill, NC 27599, USA and the Federal Reserve Bank of Richmond, 701 East Byrd Street, Richmond, VA 23219, USA. The views expressed herein are those of the authors and not those of the Federal Reserve Bank of Richmond or the Federal Reserve System. Email address: toanvphan@gmail.com.

Download English Version:

<https://daneshyari.com/en/article/5097959>

Download Persian Version:

<https://daneshyari.com/article/5097959>

[Daneshyari.com](https://daneshyari.com)