Meetings:

Thursdays 12:30-3:30pm in Gruber Conference Room.
The meetings will take place on Sep 10, Sep 17, Sep 24, Oct 8, Oct 15, and Oct 22.
NOTE THERE IS NO CLASS ON Oct 1.
There will be an ORGANIZATIONAL meeting Sep 3 during 12:30-1:30pm.

Overview:

The objective of this course is to provide theoretical and empirical foundation for the
nexus of credit risk between financial sector and sovereigns. This nexus has recently
been at the heart of the ongoing sovereign and financial sector crises in Europe, while
historically having been a greater focus in study of emerging market debt crises.

The course will focus on

(1) Providing micro-foundations of sovereign debt given that there is no explicit
institutional structure such as bankruptcy code which allows creditors to extract
repayments, and how political economy considerations such as government
myopia and populism affect the demand and nature of sovereign debt;
(2) Understanding how credit risk migrates from the financial sector to the
sovereign and vice-versa, in what is increasingly being called the “unholy nexus”
or “doom loop” or the “diabolical loop”;
(3) Tying this nexus to micro-foundations of sovereign debt repayments as well as to
incentives of highly-leveraged intermediaries such as banks;
(4) Tracing out the real-sector consequences of this nexus and isolating the channel
through which it affects the real-sector; and,
(5) Finally, studying the efficacy of regulatory interventions that have been designed
such as the regulatory stress tests of banks, design of risk weights in bank capital
requirements, and unconventional monetary policy and lender-of-last-resort
actions of central banks.

The ultimate objective is to make sense of the following flow-chart of risks and their
sources, from my forthcoming Toulouse Lectures in Economics on “The Nexus Between
Financial Sector and Sovereign Credit Risks”.
Structure of Meetings and Evaluation:

Several of the in-class presentations will be done by Viral Acharya; a few by his doctoral student, Matteo Crosignani; and the rest by the students enrolled in the course. We will sort out who presents what at the organizational meeting.

Regardless of the presentation, all enrolled or attending the course will be required to write a high-quality literature survey of up to 10 pages covering any one of the six sessions and the related papers (included below or otherwise). The survey will be due one week after the course is over, so on Oct 29.

The grade for the course will be based on assessment of this survey.

Those presenting on top of doing the survey will get a group dinner out of me! 😊
Week 1: Micro-foundations for Sovereign Debt Repayment

Course overview by Viral Acharya

Students will present paper(s) based on the following literature:

1st half of class:

2nd half of class:

Week 2: Sovereign and Financial Sector Nexus: Role of Government Myopia

Viral Acharya will present

1st half of class:

2nd half of class:

Recommended related literature:
**Week 3: Sovereign and Financial Sector Nexus: Banking Crises and Bailouts**

Viral Acharya will present

1st half of class:

Matteo Crosignani will present

2nd half of class:

Recommended related literature:

**Week 4: Sovereign and Financial Sector Nexus: Bank and Regulatory Moral Hazard**

Viral Acharya will present

1st half of class:

2nd half of class:

Recommended related literature:
**Week 5: Real Effects of Sovereign Crises: Active and Passive Banking Channels**

Viral Acharya will present

1st half of class:

Students will present paper(s) based on the following literature:

2nd half of class:

**Week 6: The Impact of Central Bank Interventions During Sovereign Crises**

Viral Acharya will present

1st half of class:

Matteo Crosignani will present

2nd half of class:

Recommended related literature: