



Fachbereich VWL / Department of Economics

# EconNewsletter

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JULY 3 – JULY 7, 2017

NEWSLETTER 2017-17

## SEMINAR CALENDAR

### Forschungsseminar “Quantitative Wirtschaftsforschung“

Andreas Müller, Univ. of Oslo:

*Sovereign Debt and Structural Reforms*

Tuesday July 4

12:15–13:45

R. 0029 (VMP 5)

### Hamburg Lectures on Law & Economics

Prof. Dr. Christoph Engel, Max-Planck-Institut Bonn:

*Property Rule vs. Liability Rule*

Wednesday July 5

18:15–19:45

R. 1083a (VMP 5)

### PhD Seminar

Petar Mihaylovski, Universität Hamburg:

*House Prices and Macroprudential Policy in an Estimated*

*DSGE Model of New Zealand*

Thursday July 6

12:15–13:15

R. 0029 (VMP 5)

### Research Seminar “Microeconomics”

- no seminar -

### Research Seminar “Labour Economics”

- no seminar -

### HCHE Research Seminar

- no seminar -

### Forschungsseminar “Environmental Economics and Management“

- no seminar -

## ABSTRACTS

### **Forschungsseminar “Quantitative Wirtschaftsforschung“**

Andreas Müller, Univ. of Oslo:

*Sovereign Debt and Structural Reforms*

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*Abstract:*

Motivated by the European debt crisis, we construct a tractable theory of sovereign debt and structural reforms under limited commitment. The government of a sovereign country which has fallen into a recession of an uncertain duration issues one-period debt and can renege on its obligations by suffering a stochastic default cost. When faced with a credible default threat, creditors can make a take-it-or-leave-it debt haircut offer to the sovereign. The risk of renegotiation is reflected in the price at which debt is sold. The sovereign government can also introduce structural policy reforms that speed up recovery from the recession. We characterize the competitive equilibrium and compare it with the constrained efficient allocation. The equilibrium features increasing debt, falling consumption, and a non-monotone reform effort during the recession. In contrast, the constrained optimum yields step-wise increasing consumption and step-wise decreasing reform effort. Markets for state-contingent debt alone do not restore efficiency. The constrained optimum can be implemented by a flexible assistance program enforced by an international institution that monitors the reform effort. The terms of the program are improved each time the country makes a credible threat to leave the program unilaterally without repaying the outstanding loans.

### **PhD Seminar**

Petar Mihaylovski, Universität Hamburg:

*House Prices and Macprudential Policy in an Estimated DSGE Model of New Zealand*

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*Abstract:*

We analyse the effects of macroprudential and monetary policies and their interactions using an estimated dynamic stochastic general equilibrium (DSGE) model tailored to New Zealand. We find that the main historical drivers of house prices are shocks specific to the housing sector. While our estimates show that monetary policy has large spillover effects on house prices it does not appear to have been a major driver of house prices in New Zealand. We consider macroprudential policies including the Loan-to-Value restrictions which have been implemented in New Zealand. We find that Loan-to-Value restrictions reduce house prices with negligible effects on consumer prices, suggesting they can be used without derailing monetary policy. We estimate that the recently imposed New Zealand Loan-to-Value restrictions reduced house prices by 3.8 percent, and that greater forward guidance on their duration would make them more effective.

## **Hamburg Lectures on Law & Economics**

Prof. Dr. Christoph Engel, Max-Planck-Institut Bonn:

*Property Rule vs. Liability Rule*

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### *Abstract:*

In a full-information, zero transactions costs world, the degree of protection afforded to an entitlement does not affect the likelihood of efficient trade. In reality, imperfect information is often inevitable. Specifically, a party will usually have incomplete information about fairness norms held by the other party – fairness norms that affect the other party’s willingness to pay (WTP) or willingness to accept (WTA). Importantly, these fairness norms may depend on how strongly the entitlement is protected. We experimentally test the effect of the degree of protection on the parties’ WTP and WTA and on the likelihood of efficient trade by varying the legal remedy for infringing upon the owner’s entitlement. We show that our participants can be divided into three groups corresponding to three different fairness norms: negative types whose WTP and WTA are decreasing in the strength of the legal remedy; positive types whose WTP and WTA are increasing in the strength of the legal remedy; and flat types whose WTP and WTA do not depend on the strength of the legal remedy. We find that type is role-dependent, such that a higher WTP and a lower WTA – the combination most conducive to efficient trade – is obtained with a weaker legal remedy.

*The next EconNewsletter will be published on Monday July 10, 2017.*

*Editorial deadline: Friday, July 7, 2017.*

### **EconNewsletter**

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