Macroeconomics A; EI060

Quiz

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1 Motivation to default

Question: When a country can invest and borrow in a bond, and faces a up-down income process.

Why would it want to default?

Is default always a concern?

2 Exclusion and domestic cost

Question: Is exclusion from world market a credible way to limit default?

What about a situation where default disrupts the private sector and reduces output?

3 Endogenous premium

Question: In the framework with endogenous default risk and risk premium, when output is risky, does a lower cost of default ϕ impact the risk premium?

4 Insurance and default

Question: Consider the case where payment is not in form of a bond with set interest rate, but in form of a contingent contract, linked to the realization of output.

In the absence of default, what is the outcome of the contract?

How does default affect the insurance? Does it make it impossible?

5 Moral hazard

Question: Consider a country that borrows, and can lend the money back or invest in raising its output.

If the information is perfect, does the income of the country Y_1 matter?

If the lender cannot see what the borrower do with the money, is there a risk of the borrower reinvesting abroad? Why? What is the impact of Y_1 ?