# STELIOS FOURAKIS

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## Education

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| 2016-2022 | Ph.D. in Economics, University of Minnesota<br>Job Market Paper: "Sovereign Default and Government Reputation"<br>Committee: Manuel Amador, Tim Kehoe, Chris Phelan, Juliana Salomao |
| 2009-2013 | B.A. in Political Economy, *cum laude*, Georgetown University |

## Research Interests

Macroeconomics, International Economics, Sovereign Debt

## Current and Past Positions

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| 2022-Present | Assistant Professor, Department of Economics, Johns Hopkins University |
| 2019 | Visiting Graduate Student, Department of Economics, Princeton University |
| 2018-2022 | Research Assistant to Manuel Amador, Federal Reserve Bank of Minneapolis and Department of Economics, University of Minnesota |
| 2014-2016 | Economist, Pacific Economcs Group Research, LLC |

## Fellowships and Awards

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| 2017-2018 | Mythili V. and Varadarajan V. Chari Fellowship, Heller-Hurwicz Economics Institute, University of Minnesota |
| 2017 | Dr. Harald Uhlig Award in Macroeconomics, Department of Economics, University of Minnesota |
| 2016-2017 | Christopher Sims Fellowship, Heller-Hurwicz Economics Institute, University of Minnesota |

## Teaching Experience

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| 2018 | Principles of Macroeconomics, University of Minnesota, Teaching Assistant |
| 2017 | Principles of Microeconomics, University of Minnesota, Teaching Assistant |

## Working Papers and Works in Progress

1. "Sovereign Default and Government Reputation" (Job Market Paper)

   *Abstract:* In this paper, I build a flexible theoretical model of sovereign borrowing, default, and renegotiation with borrower reputation. There is asymmetric information about the government's "type", and reputation is the market belief that it is "responsible" and therefore less likely to default. Every government decision informs market beliefs about this "type". I calibrate the model using data on how countries' credit histories affect the prices they face. Using the model, I show that countries that have recently defaulted have poor reputations because they rapidly run up their debts prior to default, not because the default decision itself is revealing. I also show that, for countries facing non-trivial levels of default risk, the reputational costs of default are less than 0.2 basis points of consumption. I then validate the model by showing that its predictions about the effects of borrowing behavior on interest rate spreads through the reputation channel are borne out in the data. Finally, I show that transparency initiatives and audit programs have significant, negative implications for welfare, because they weaken the signaling mechanisms that prevent, to some extent, overborrowing by the government.

2. "Liquidity, Default Risk, and the Information Sensitivity of Government Debt"

*Abstract:* In this paper, I document that, during the height of the Eurozone Debt Crisis in Spain, 1.) Spanish government bonds became substantially less liquid and less traded on secondary markets, 2.) the first appearance of this phenomenon lagged far behind the initial jump in interest rate spreads in late 2008, and 3.) it persisted throughout the period of peak interest rate spreads and only subsided after the worst of the crisis had passed. I argue that these facts are related and best explained by a model of sovereign default that features secondary markets in which it is possible that some traders have private information. I then build a model in which some traders have private information about the country's future economic conditions and show that this allows the model to reproduce both the delayed reaction of bid-ask spreads as well as their peak and behavior during the height of the crisis. Using the model, I measure the losses to investors associated with variation in liquidity during debt crises. Finally, I validate the model by showing that the model's predicted relationship between current, realized bid-ask spreads and future values of GDP allows me to forecast GDP significantly better than a standard, benchmark forecast.

3. "Sovereign Default under Imperfect Information"

*Abstract:* In this paper, I document that, during the Eurozone Debt Crises, 1.) forecasts of output were persistently biased upwards, 2.) the afflicted countries all saw steep increases in their government debt to GDP ratios and their external government debt to GDP ratios, and 3.) spreads reacted slowly to these increases. I argue that these three facts are related and connect them through a model of sovereign default which features incomplete information with respect to the persistent component of output. I then show that the inclusion of information imperfections allows the model to produce patterns during and before crises which better match the patterns in the data than the benchmark model.

4. "Computing Sovereign Debt Models: Why So Hard?", with Mark Aguiar and Manuel Amador

*Abstract:* Sovereign debt models with long-duration bonds are notoriously hard to compute. Using a simplified environment of the standard Eaton & Gersovitz (1981) model with outside option shocks, we show that equilibria in pure strategies may not exist, explaining the lack-of-convergence issues encountered in the quantitative literature. We propose an algorithm for computing mixed-strategy equilibria. For some parameterizations, we uncover millions.

5. "Long Term Debt Models: Solution Methods Matter"

*Abstract:* Over the last decade, long term debt has become a standard feature in quantitative studies of sovereign default. A wide variety of numerical solution methods have been used in solving these models, but little is known about the relative performance of various methods and their sensitivity to parameters and grid specifications. In this paper, I provide a survey of the commonly used methods and then test their performance. For long run simulations (often used to calculate the moments used to estimate the model), I find that results (both within each method, varying grid fineness, and across methods) are relatively stable. However, for short run simulations (often used to analyze the model's prediction about a specific country's experience at a specific time of interest), the results can vary dramatically. In some cases, the results even change qualitatively. Using these results, I provide guidance on when each method is likely to be robust and when it is probably the case that results are not robust to the choice of solution method (and specific parameters of that solution method, such as grid fineness).

6. "The Welfare Effects of Bailout Out Governments"

7. "Inequality, Redistribution, and Sovereign Risk", with Monica Tran Xuan

## Publications

1. "On the Welfare Losses from External Sovereign Borrowing," with Mark Aguiar and Manuel Amador, IMF Economic Review, 68(1), 2020: 163-194.

## Presentations

1. "The Welfare Effects of Bailout Out Governments", Yale School of Management Junior Finance Conference, September 2022

2. "Sovereign Default and Government Reputation," Chicago Fed Rookie Conference, November 2021; Society for Economic Dynamics Annual Meeting, Madison, WI, July 2022

**Professional Activities**

1. Referee for *Journal of Political Economy Macroeconomics*, *Review of Economic Dynamics*, *Review of World Economics*

**Skills**

*Programming*: Julia, R, SQL, STATA, and Excel
*Language*: English (native), German (intermediate), Greek (intermediate), Arabic (intermediate)
*Interests*: Baking and cooking; classic movies; prestige TV