

Research Statement

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My research interests lie in the area of International Finance, Macroeconomics and Public Finance. I have pursued one basic theme: emerging economies have domestic and external vulnerabilities and there are urgent needs for them to implement appropriate macroeconomic policies to prevent crises. The central goal of my research is to explore the processes with the potential to cause a crisis and analyze policies of emerging countries both theoreticly and empirically. I have focused on three key issues, sovereign debts, exchange rate policy and foreign market interventions under the floating exchange rate regime.

My job market paper, Asonuma (2009d) and one research paper, Asonuma (2009a) demonstrate theoretical analysis on sovereign debts. I explain the mechanisms of serial defaults and large fractions of debts denominated in foreign currency rather than local currency.

First, my job market paper is motivated by an observed fact that emerging countries that have defaulted on their debt repayment obligations in the past are more likely to default again in the future than are non-defaulters with the same debt-to-GDP ratio. I use a dynamic stochastic general equilibrium framework that explicitly models renegotiations between a defaulting country and its creditors. The quantitative analysis of the model reveals that the equilibrium probability of default for a given debt-to-GDP level is weakly increasing with the number of past defaults, consistent with empirical observations.

Next, my research paper is triggered by stylized evidences that emerging countries issue a small fraction of external debts in local currency and the interest rates on local currency bonds are generally higher than those of foreign currency bonds. This paper attempts to address these evidences within a dynamic stochastic general equilibrium model which bond issuances in local and foreign currencies and endogenous determination of exchange rate are explicitly embedded. Our quantitative results show that the equilibrium share of debts denominated in local currency is smaller than one in foreign currency and the interest rate on local currency bonds is higher.

Two research papers, Yoshino, Kaji, and Asonuma (2009a, 2009b) center on exchange rate policy in the emerging economies. The former determines whether adopting the basket-peg rather than the floating regime is optimal for transitional economies, while the latter computes dynamic effect of the shifts of exchange rate system from the dollar-peg to the basket-peg or floating. Moreover, two previous research papers, Yoshino, Kaji, and Asonuma (2004, 2005) analyze the optimal exchange rate regimes for small

open economies which are mutually dependent and find that the floating and basket-peg are superior to the dollar-peg regime.

Two research papers, Asonuma, Vandepuete, Veyrune (2009) and Asonuma and Veyrune (2009) present qualitative and quantitative analysis on official transactions at the foreign exchange market under the floating regime. We propose a new empirical method to quantify the market expectation of official actions at the market, which is based on the time-series properties of spot exchange rates.

My current project on debt renegotiation, Asonuma (2009c) attempts to explore an observed trend that some emerging countries choose to negotiate with foreign investors preemptively before the default, while some countries decide to declare defaults first and negotiate with foreign investors later. I build a dynamic stochastic general equilibrium model framework that explicitly models both preemptive and ex-post-default renegotiations between a defaulting country and its creditors. The quantitative exercise expects to indicate that the country's choice of preemptive or ex-post-default renegotiations depend endogenously on expected and realized income level, output cost associated with defaults and also the expected outcomes of two types of renegotiations.

Furthermore, also my current research, Asonuma (2009b) considers the incidence of export tax rebate in the emerging economy like China which imports large shares of intermediate goods from abroad and also exports large shares of final goods to foreign countries.

For the future, my research agenda is focused on bringing elements of information asymmetry to the current sovereign debt analysis. A number of recent papers have quantitatively analyzed the debt renegotiation under symmetric information between a defaulting country and its creditors, but none has examined the debt renegotiation under asymmetric information. My future research papers aim to deliver solid explanations on cross-country variations in debt renegotiation outcomes driven by the bargaining in the case of information asymmetry.

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