Abstracts

My primary research lie within the fields of Macroeconomics and Open Economy Macroeconomics, although the questions I am interested in have heavy economic growth and economic development themes. Below are the abstracts of my working papers.

Fiscal and monetary policy in the presence of informality and the incentive to join a currency union.
How does economic activity outside of government control —informality—affect the conduct of fiscal and monetary policy? I first study this question in a New Keynesian, small open economy model and then collect data to conduct an empirical analysis. The model is assumed to feature informality in both goods and labor markets. A non-traded sector produces a non-taxed informal good. The traded sector produces a formal good and is subject to taxation, but it can hire workers using both formal and informal contracts. I show that the presence of informality decreases the optimal tax rate and increases macroeconomic volatility. Estimation of the marginal effect of the informal sector on the tax rate using a panel data supports this finding. Moreover, when the country cannot credibly pre-commit to the optimal policy, informality significantly increases the incentive to peg the currency. This result can help explain why many sub-Saharan African countries have plans to either expand existing currency unions or to form new ones.

Unemployment, optimal monetary policy and labor mobility in a currency union.
How does migration within a currency union affect welfare across the union? I study this question in this paper with a New Keynesian, currency union model. The union consists of two economies whose economies are characterized by labor market frictions. One country member has a higher job-finding rate and a lower unemployment rate, compared to the other country, hence unemployed agents in the former have an incentive to relocate to the latter. I show that when firms have the ability to hire workers from abroad and when unemployed agents can relocate to a different country, the negative impact of asymmetric shocks are significantly reduced, improving welfare across the union on balance.

Exit from sudden stops: a hazard model approach. *(With Yu-chin Chen)*
Using a hazard based duration model we analyze the main determinants of the duration of a sudden stop. The hazard model estimates the conditional probability of an exit from a period of sudden stop: given that the country experiences a sudden stop up until the end of last period, what is the probability that the country exits the sudden stop today? We find strong evidence that a higher ratio of foreign exchange reserves to short term external debt and a higher global economic growth shorten sudden spells. We also find that exchange rate flexibility, as measured by the exchange rate regime, increases the duration sudden stops.