# NEELE L. BALKE

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PhD Candidate in Economics
University College London

## University College London

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## Contact Information

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## Education

*PhD Candidate*, Economics, University College London, 2011 to 2017 (expected)
Thesis: "Essays on Macroeconomics and Sovereign Default"
Visiting PhD student, New York University, 2016
MRes, Economics, University College London, Distinction, 2012
MSc, Economics, University College London, Distinction (top student of the cohort), 2011
BSc, Economics & Law, University of Münster, Distinction, 2010

## References

Morten Ravn (Primary Advisor)
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Jan Eeckhout
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## Research Fields

Macroeconomics, International Finance, Sovereign Default, Computational Economics

## Teaching

Fall 2015 Macroeconomics (1st year PhD), TA for Mariacristina DeNardi & Victor Ríos-Rull
Fall 2014 Macroeconomics (1st year PhD), TA for Mariacristina DeNardi & Wei Cui
Fall 2013 Macroeconomics (1st year PhD), TA for Mariacristina DeNardi & Wei Cui
Fall 2012 Macroeconomic Theory and Policy (2nd year undergrad), TA for Liam Graham

## Research Assistance

2015-present Research Assistant to Morten Ravn, University College London
2008-2010 Research Assistant to Christian Müller, University of Münster, Germany

## Scholarships & Awards

2015 ESRC, Overseas Institutional Visit Grant
2014 University College London, Outstanding Teaching Assistant Award
2012 ESRC, Scholarship (3 years)
2011 University College London, David Pearce Scholarship (1 year)
2010 University College London, Best Overall Performance Award in the MSc Economics
2010 University College London, Highest Dissertation Mark Award in the MSc Economics
2010 German Academic Exchange Service, Scholarship (1 year)
2009 Konrad-Adenauer-Foundation, Scholarship (3 years)

## Conferences & Seminar Presentations

2015 SED Warsaw, Annual Conference VfS Münster, NORMAC Smoegen, New York University, Stockholm School of Economics, Humboldt University Berlin
2013 NORMAC Smoegen (discussant)

## Refereeing

*Economic Journal, Macroeconomic Dynamics, Fiscal Studies*

## Research Papers

*"The Employment Cost of Sovereign Default"* (Job Market Paper)
This paper analyzes the interaction between government default decisions and labor market outcomes in an environment with persistent unemployment and financial frictions. Sovereign risk impairs bank intermediation through balance sheet effects, worsening the conditions for firms to pre-finance wages and vacancies. This generates a new type of endogenous domestic default cost – the employment cost of default. The persistence of unemployment produces serial defaults and rationalizes high debt-to-GDP ratios. In the dynamic strategic game between the government and the private sector, anticipation effects allow the study of both debt crises and outright default episodes. Introducing employment subsidies and bank regulations affect the government's ability to commit to debt repayment.

*"Time-consistent Fiscal Policy in a Debt Crisis"* with M. Ravn
We analyze time-consistent fiscal policy in a sovereign debt model. We consider a production economy that incorporates feedback from policy to output through employment, features inequality though unemployment, and in which the government lacks a commitment technology. The government's optimal policies play off wedges due to the lack of lump-sum taxes and the distortions that taxes and transfers introduce on employment. Lack of commitment matters during a debt crisis – episodes where the price of debt reacts elastically to the issuance of new debt. In normal times, the government sets procyclical taxes, transfers and public goods provision but in crisis times it is optimal to implement austerity policies which minimize the distortions deriving from default premia. Could a third party provide a commitment technology, austerity is no longer optimal.

## Work in Progress

*"Sunspot-driven Bond Pricing with Dynamic Private Sector Behavior"*
Multiple equilibria have gained much attention as explanation for the recent sovereign debt crisis in Europe. This paper outlines a novel source of multiplicity in sovereign default models that stems from the presence of a privately determined state (employment) and is resistant to the first-mover advantage of the government. In the model, default is more likely during periods of high unemployment, which is determined in a dynamic frictional labor market. If investors expect the government to default due to high unemployment in the next period, it becomes self-fulfilling because the low debt price worsens firms' credit conditions. Firms post fewer vacancies which increases future unemployment and the probability of default. For reasonable calibrations multiplicity only arises if the value of a filled job differs substantially across repayment states and if firms' financing conditions react strongly to debt prices.

*"The Spending Multiplier under Sovereign Default Risk"*
Fiscal policy is more procyclical in emerging than in industrialized economies. Emerging economies also face higher interest rate spreads and a higher sovereign default probability than developed countries. I develop a model in which the fiscal multiplier and the optimal fiscal policy are sensitive to the inclination to default. In an overlapping generations framework, young agents use domestic public debt to shift resources intertemporally to procure consumption at old age. A government, which can only levy one lump-sum tax on both age groups, may find it optimal to default which acts as an additional tax on bond holders. If an increase in government spending triggers the default probability to rise due to fiscal constraints it leads the young to anticipate higher default taxes. The resulting wealth effect is stronger. The spending multiplier depends on the sensitivity of the sovereign default probability to changes in the fiscal deficit.