

Current Draft
September 5, 1991

Comments Welcome

PRIVATE INVESTMENT AND SOVEREIGN DEBT NEGOTIATIONS*

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Abstract

I study a model of sovereign debt bargaining of the kind proposed by Bulow and Rogoff. I assume that all agents act rationally with perfect foresight and perfect information. The main departure from previous studies is that the government of the debtor country acts on behalf of but is not identical to its representative citizen. This seemingly minor change implies that (i) there is an indeterminacy of bargaining outcomes, including some of the sunspots type; (ii) agreement may be delayed for many periods; and (iii) marginal debt may not be worthless.

Running Title: Private Investment and Sovereign Debt Negotiations

* I thank Mark Spiegel for many suggestions and comments. All errors and omissions are mine. The C.V. Starr Center for Applied Economics provided financial support.

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