

Graduate School of Public Policy  
The University of Tokyo

***Sovereign Defaults: Lessons from History and Future Implications***

Course No. 5123430  
Winter 2013

COURSE SYLLABUS

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Time: 4:40pm-6:20pm, Wednesdays (October 2, 2013-January 29, 2014)  
Location: Room No. 3, 7<sup>th</sup> floor, Administration Bureau Building 2, Hongo Campus  
Instructor: Toshiro NISHIZAWA, Professor (practitioner faculty member)  
TA: Mr. Tatsuya OGAWA (Adjunct TA: Ms. Gaye KIM)  
Credits: 2 credits  
Language: English  
Office: Room 605, 6<sup>th</sup> floor, Administration Bureau Building 2, Hongo Campus  
Office hours: (To be announced) or by appointment  
Contact info: tnishizawa@pp.u-tokyo.ac.jp; 03-5841-1343

*\*Please feel free to send me e-mails with any question about the course or if you want to make an appointment. To help me not to miss your incoming e-mails, **please start the subject line with "5123430" (Course No.)** when you send e-mails.*

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**1. Objectives/Overview**

A sovereign default is the *failure or refusal* of a government to meet payments on its debt obligations to either domestic or external creditors, or to both. Since the global financial crisis of 2008-2009, high levels of government debt in advanced economies have raised renewed concerns over possible sovereign defaults. In fact, history gives us many precedents of sovereign default by both developed and developing countries as well as many crisis cases in their various guises that brought a government to the verge of default.

As financial journalist Philip Cogan described in his recent book titled *Paper Promises: Money, Debt and the New World Order*, economic history could be viewed as "a war between creditors and debtors" while borrowing and lending money is essential to make an economy function.

As any other players in the economy, a government needs to borrow or assume some form of liabilities, both direct and contingent, when it runs deficits, rescues the financial system, guarantees public projects, and tries to maintain exchange rates, and so on. Therefore, the government is not necessarily immune from a battle with its creditors.

Furthermore, consideration is needed not only for the conflict between creditors and debtors, but also between creditors as evident from inter-creditor equity issues in debt restructuring exercise. Therefore, dealing with sovereign defaults has serious *political* and *legal*, as well as *economic*, consequences, which should require *public policy and legitimacy considerations*.

The aim of the course is to familiarize students with sovereign risk assessment methodologies (*technique*) on the basis of the historical knowledge of sovereign default and debt restructuring (*lessons from history*) and then to provide students with an opportunity to discuss and consider how government liabilities should be managed and sovereign debt crises could be avoided or dealt with (*policy implications*).

## 2. Schedule (preliminary)

Day 1	October 2	Introduction	Nishizawa
Day 2	October 9	Overview of the key concepts	Nishizawa
...	October 16	No class	Nishizawa
Day 3	October 23	Debt crises and sovereign defaults	Nishizawa
Day 4	October 30	History of sovereign defaults (1)	Nishizawa
Day 5	November 6*	History of sovereign defaults (2)	Nishizawa
Day 6	November 13	History of sovereign defaults (3)	Nishizawa
Day 7	November 20	Student presentation (for mid-term report)	Nishizawa
Day 8	November 27	Sovereign debt restructuring (1)	Nishizawa
Day 9	December 4	Sovereign debt restructuring (2)	Nishizawa Hosono (guest)
Day 10	December 11*	Sovereign risk assessment (1)	Nishizawa Kaya (guest)
Day 11	December 18	Sovereign risk assessment (2)	Nishizawa
Day 12	January 8	Political nature of sovereign defaults	Nishizawa
Day 13	January 15	Economic aspects of sovereign defaults	Nishizawa
Day 14	January 22	Discussion on selected issues	Nishizawa
Day 15	January 29	Student presentation (for final report)	Nishizawa

\*: Substitute date will be announced due to instructor's absence.

## 3. Teaching methods

This course will be organized as a seminar with introductory lecture followed by class discussion. *Active participation in discussion* based on student different backgrounds, life-experiences, knowledge, skills, and reading of assigned materials is expected. The working language is English.

Guest speakers will be invited to discuss specific issues from various perspectives and/or based on different fields of professional expertise.

#### **4. Course requirements and grading**

Students are required to make *presentations at least twice either on a topic of his/her interest or on one of her/his choice from the subjects given by the instructor*. Each student is also required to submit reports based on the presentation in the middle and at the end of the course.

Also, students are required *from time to time to write a short note (up to about 600 words) about one of the readings assigned for a particular class* and to submit the note by e-mail at least twenty four (24) hours before the beginning of the class. Unless otherwise instructed, the note should cover: (a) your understanding of key ideas and questions raised by the author, (b) terms and concepts that you need clarification, and (c) issues identified for further discussion.

The course grade will be based on:

Presentations 35% (10% for mid-term and 25% for final)

Individual reports 35% (10% for mid-term and 25% for final)

Class attendance and participation 30%

#### **5. Required readings**

Required readings, mainly excerpts taken *selectively* from the following reference books and other materials, will be either made available on the course website or handed out in class. While students are not required to purchase any reference materials listed below, the two books marked with a "#" sign (Coggan 2011, and Reinhart and Rogoff 2009) are easily available in paperback and may be a useful source of information and ideas to help students work on issues of sovereign defaults.

# Coggan, Philip. 2011. *Paper Promises: Money, Debt and the New World Order*. New York: Penguin Groups.

Duncan, Richard. 2012. *The New Depression: The Breakdown of the Paper Money Economy*. Singapore: John Wiley&Sons.

International Monetary Fund (IMF). 2013. *Sovereign Debt Restructuring--Recent Development and Implications for the Fund's Legal and Policy Framework*. Washington, DC: International Monetary Fund. Accessed September 30, 2013.  
<http://www.imf.org/external/np/pp/eng/2013/042613.pdf>

Kindleberger, Charles P., and Robert Z. Aliber. 2005. *Manias, Panics, and Crashes: A History of Financial Crises*. 5th ed. Hoboken, NJ: John Wiley&Sons.

Kolb, Robert W., ed. 2011. *Sovereign Debt: From Safety to Default*. Hoboken, NJ: John Wiley&Sons.

Lewis, Michael. 2011. *Boomerang: Travels in the New Third World*. New York: W.W. Norton&Company.

Polackova Brixi, Hana, and Allen Schick, ed. 2002. *Government at Risk: Contingent Liabilities and Fiscal Risk*. Washington, DC: The World Bank.

Rajan, Raghuram G. 2010. *Fault Lines: How Hidden Fractures Still Threaten the World Economy*. Princeton: Princeton University Press.

# Reinhart, Carmen M., and Kenneth S. Rogoff. 2009. *This Time Is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press.

Sturzenegger, Federico, and Jeromin Zettelmeyer. 2006. *Debt Defaults and Lessons from a Decade of Crises*. Cambridge, MA: The MIT Press.

Tomz, Michael. 2007. *Reputation and International Cooperation: Sovereign Debt across Three Centuries*. Princeton: Princeton University Press.

Waibel, Michael. 2011. *Sovereign Defaults before International Courts and Tribunals*. New York: Cambridge University Press.

## **6. Course outline (preliminary)**

### **Day 1: Introduction**

As an introduction to the subject, students learn a couple of recent cases of financial crisis and sovereign defaults by listening to chapters (audio) of a book written by Michael Lewis, a non-fiction writer. Also, students are given an opportunity to watch the related videos on The Economist, Financial Times, and IMF websites. Then, the instructor will present the aim of this course as well as the teaching methods and approaches to follow. Students are asked to share with others in class their motivation to work on the subject and their backgrounds, life-experiences, knowledge, skills and so on.

#### *Readings*

Lewis, Michael. 2011. *Boomerang: Travels in the New Third World*. New York: W.W. Norton&Company: vii-xviii and 41-82 (audio).

#### *Assignments*

Students are required to write and to submit a short note (up to about 400 words) about her/his motivation to work on the issues related to sovereign defaults. Students are also asked to read Reinhart and Rogoff (2009, xxxix-xlv) as well as Hatchondo, Martinez, and Saprizza (2011, 137-147) in order to be ready for class discussion on Day 2.

### **Day 2: Overview of the key concepts**

#### *Readings*

Hatchondo, Juan Carlos, Leonardo Martinez, and Horacio Saprizza. 2011. "Understanding Sovereign Default." In *Sovereign Debt: From Safety to Default*, edited by Robert W. Kolb. Hoboken, NJ: John Wiley&Sons: 137-147.

Reinhart, Carmen M., and Kenneth S. Rogoff. 2009. *This Time Is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press: xxxix-xlv.

*Assignments*

Students are required to read Reinhart and Rogoff (2009, 3-20 and 51-67) in order to be ready for class discussion on Day 3.

**Day 3: Debt crises and sovereign defaults**

*Readings*

Reinhart, Carmen M., and Kenneth S. Rogoff. 2009. *This Time Is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press: 3-20 and 51-67.

**Day 4: History of sovereign defaults (1)**

**Day 5: History of sovereign defaults (2)**

**Day 6: History of sovereign defaults (3)**

**Day 7: Student presentation (for mid-term report)**

**Day 8: Sovereign debt restructuring (1)**

**Day 9: Sovereign debt restructuring (2)**

**Day 10: Sovereign risk assessment (1)**

**Day 11: Sovereign risk assessment (2)**

**Day 12: Political nature of sovereign defaults**

**Day 13: Economic aspects of sovereign defaults**

**Day 14: Discussion on selected issues**

**Day 15: Student presentation (for final report)**

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