

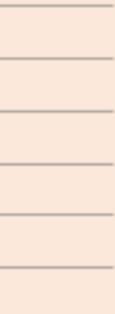


**COEN TEULINGS**

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# Comments on Abraham, Carceles-Poveda, Liu, Marimon



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## Quiz: what is Europe's problem?

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1. Lack of investment in R&D?
  2. Unequal access to education?
  3. Too high public deficits?
  4. Too high deficits in the South?
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# Budget deficits 2017

Block	Deficit in % GDP
United States	-3.5
China	-3.9
Japan	-4.5
Euro-zone	-1.3
United Kingdom	-3.3

# Deficits within Europe 2017

Country	Growth	Deficit in % GDP
France	1.5	-2.9
Italy	1.2	-2.3
Germany	1.9	+0.7
Euro-zone	2.0	-1.3
UK	1.5	-3.4

# PofB imbalances 2017

Block	PofB in % GDP	GDP (\$)	PofB (\$bn)
United States	-2.5	17960	-449
China	+1.6	9810	+157
Japan	+3.6	5220	+188
Euro-zone	+3.2	11660	+373
United Kingdom	-3.4	2940	-100

# Does a fund outperform an IMD?

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- Fund massively outperforms IMD
    - Lower variability consumption
    - Lower correlation consumption – GDP
    - Allows for much higher debt levels
  - ... by imposing a debt limit
  - Yields a negative spread in good states. Intuition?
  - Nice paper, clearly policy relevant
  - Presentation could be better
    - There is excess math and little intuition
  - Technical remarks/questions for the authors
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## 6 questions (1-2)

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1. Why is a fund better than IMD?
    1. Exclusivity constraint helps containing MH?
    2. Externality to default risk on existing debt?
      - If so, shouldn't you model the term structure?
  2. What is debt in this context?
    - Total debt or external debt?
    - Public debt is a means for extracting surplus from future generations
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## 6 questions (3-6)

3. Is debt only smoothing or also structural?
  - Interesting talk on country-heterogeneity
4. Is this a general mechanism for any country club? Or specific to a monetary union? Is so, what is the mechanism?
5. Effort does not depend on debt level. Why? Seems a critical assumption
6. How far are we off with the current ESM? Probably substantially