

Three Essays in Macroeconomics and International Economics

Dissertation Abstract

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Chapter 1, Inequality and House Prices.

This paper studies the interaction between inequality and house prices using an incomplete market heterogeneous agent model. The model links cross-sectional household portfolio saving decisions to housing market outcomes, contributing to the housing literature by illustrating a new price formation mechanism in which the investment motive among the wealthy plays a key role. A quantitative application of the theory rationalizes puzzling phenomena in China notably, its recent substantial housing boom accompanied by rising savings rates. The theory in this paper shows that market frictions can have differential impacts cross-sectionally, increasing the risk of an explosion of inequality. This adds to the understanding of a broader topic: how inequality and macroeconomic forces can interact.

Chapter 2, The Welfare and Distributional Effects of Fiscal Uncertainty: A Quantitative Evaluation, with Rüdiger Bachmann, Jinhui Bai and Minjoon Lee.

This paper explores the welfare and distributional effects of fiscal uncertainty in a neoclassical stochastic growth model with incomplete markets, where households face uninsurable idiosyncratic risks in their labor income and discount factor processes. Aggregate uncertainty arises from both productivity and government purchases shocks. Starting from an initial situation calibrated to key features of the U.S. economy, we eliminate government purchases shocks, but keep the aggregate productivity process. We then evaluate the distributional consequences of the elimination of fiscal uncertainty and find, in the baseline case, welfare gains that decline with private wealth holdings.

Chapter 3, Trade after Sovereign Defaults, with Chenyue Hu.

This paper offers new theoretical and empirical insights into the effect of sovereign defaults on trade. In this project, we contend that sovereign debt renegotiation is associated not with trade sanctions but with trade benefits between debtor countries and creditor countries. We find empirical support for the argument from the changes in trade shares after debt renegotiations as well as the Aid-for-trade statistics. Motivated by those findings, we build a two-country dynamic stochastic general equilibrium (DSGE) model with incomplete financial markets, allowing strategic interaction between debtors and creditors through trade-cost adjustment and debt default. The model explains several stylized facts about sovereign defaults.