

SUMAN S. BASU
ssbasu@mit.edu

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

OFFICE CONTACT INFORMATION

MIT Department of Economics
50 Memorial Drive, E52-243D
Cambridge, MA 02142-1347
Mobile: 617-230-6798
ssbasu@mit.edu

HOME CONTACT INFORMATION

45 Trowbridge Street Unit 1B
Cambridge MA 02138
Mobile: 617-230-6798

<http://econ-www.mit.edu/grad/ssbasu/>

MIT PLACEMENT OFFICER

Professor Nancy L. Rose nrose@mit.edu
617-253-8956

MIT PLACEMENT ADMINISTRATOR

Mr. Peter Hoagland pvhoag@mit.edu
617-253-8787

DOCTORAL STUDIES

Massachusetts Institute of Technology (MIT)
Ph.D. Economics. Expected completion: June 2009
DISSERTATION: "Essays on Sovereign Debt and International Capital Flows."

DISSERTATION COMMITTEE AND REFERENCES

Professor Guido Lorenzoni
MIT Department of Economics
50 Memorial Drive, E52-251C
Cambridge, MA 02142-1347
617-253-4836
glorenzo@mit.edu

Dr Olivier Blanchard
Economic Counselor
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431
202-623-7825
blanchar@mit.edu

Professor Iván Werning
MIT Department of Economics
50 Memorial Drive, E52-251A
Cambridge, MA 02142-1347
617-452-3662
iwerning@mit.edu

CITIZENSHIP	United Kingdom	GENDER	M	DATE OF BIRTH	1982
PRIOR EDUCATION	B.A. Economics, First Class Honors		Cambridge University (Trinity College)		2003
RESEARCH & TEACHING FIELDS	Primary Fields: International Finance, Macroeconomics Secondary Fields: International Trade, Contract Economics				
TEACHING EXPERIENCE	Economic Growth (Graduate, MIT course 14.451)		Spring 2006,		
	Teaching Assistant to Professors Daron Acemoglu and George-Marios Angeletos		Spring 2007		
	Dynamic Optimization (Graduate, MIT course 14.128)		Spring 2006,		
	Teaching Assistant to Professors Mikhail Golosov and Iván Werning		Spring 2007		

	Advanced Macroeconomics (Graduate, MIT course 14.461) Teaching Assistant to Professors Jordi Galí and Daron Acemoglu	Fall 2005
	Economics Research and Communication (Undergraduate, MIT course 14.33) Teaching Assistant to Professor Sara F. Ellison	Fall 2008
RELEVANT POSITIONS	Research Assistant to Professor Ricardo Caballero, MIT	2005-06
	Research Assistant to Professor Olivier Blanchard, MIT	2004-05
	Summer Student, Institute for Fiscal Studies	2003
	Research Assistant to Professor Sara F. Ellison, MIT (Cambridge-MIT UROP exchange)	2002
FELLOWSHIPS, HONORS, AND AWARDS	David Finch Fellowship, MIT	2007-08
	Graduate Teaching Award, MIT	2007
	MIT Fellowship	2004-05
	Kennedy Memorial Scholarship Awarded by the Kennedy Memorial Trust, UK	2003-04
	PricewaterhouseCoopers Prize in Economics, Cambridge University Awarded for top rank in university.	2002
	Senior Scholarship from Trinity College, Cambridge University	2001
	Percy Pemberton Prize from Trinity College, Cambridge University Awarded for top rank in university.	2001
PUBLICATIONS	“An Examination of the IFS Corporation Tax Forecasting Record,” with Carl Emmerson and Christine Frayne. 2003. Institute for Fiscal Studies Working Paper W03/21.	
RESEARCH PAPERS	<p>“Sovereign Debt and Domestic Economic Fragility” (Job Market Paper)</p> <p>Abstract: Recent sovereign default episodes have been associated with substantial output costs. The sovereign's default decision should take into account that debt repudiation may exacerbate such costs. We construct a model where sovereign debt is held by both foreign creditors and domestic residents, and the sovereign is constrained to default equally on the two categories of lenders. Default on foreign lenders benefits domestic consumption, but default on domestic residents generates an output cost that increases with the extent of the default. This makes the sovereign reluctant to initiate default. We present two sets of results. Firstly, we characterize the optimal default decision and show that full repudiation of debt is not optimal when domestic output costs are sufficiently high. A corollary is that in this model the sovereign can issue debt even in the absence of reputational mechanisms. Secondly, the sovereign finds it optimal to render the domestic economy vulnerable to the adverse effects of default, in order to raise funds cheaply from abroad. Economic fragility is an optimal response to the lack of commitment of the sovereign.</p>	

**RESEARCH IN
PROGRESS**

“IMF Crisis Intervention and Moral Hazard”

Abstract: Government policies that reduce the risk of adverse future events are often costly to implement and difficult to observe. If the government of a country knows that IMF support is available in the event of a crisis, it may exert suboptimal effort ex ante in crisis prevention activities. Moral hazard might arise because IMF intervention improves consumption in the event of a crisis.

We present a framework where IMF crisis intervention ex post can improve government effort ex ante. In the model, government actions to improve economic fundamentals are not always effective, and the government learns of the success of its actions before foreign investors. Without the IMF, foreign investors cannot discriminate between success and failure of the actions until it is too late. The IMF can structure its crisis intervention policy so as to reveal the government’s private information to foreign investors. The IMF provides limited transfers to countries which declare themselves to be in a crisis. These countries face high interest rates on international capital markets. Countries which do not accept transfers are identified as having strong fundamentals and are rewarded with low interest rates on international capital markets. The key mechanism is that IMF crisis intervention improves the consumption of non-crisis countries. The difference between consumption in the best and worst states of nature increases, which increases government effort ex ante.

Alternatively, the model framework can be reinterpreted as a model of optimal bailout policy for firms. In this case, the recommendation of the paper is for the government to offer to bail out struggling firms. This policy enables the market to direct financing to those firms that reject government help because they are fundamentally sound. Firms exert higher effort ex ante because the bailout of unsuccessful firms improves the rewards to successful firms.

“Optimal Crisis Transfers in a Repeated Dual Agency Framework”

Abstract: The return to foreign direct investment is affected by actions of the host government, but the latter is not party to the contract between foreign lenders and domestic firms. There is a time inconsistency problem because the government undertakes actions after foreign investment is sunk.

We consider an environment where government effort affects the probability of success of the foreigners’ investment. The government cannot save or borrow abroad. In a static model, an IMF transfer in the event of crisis (i.e., failure of domestic investments) provides insurance to the country, but it also weakly reduces government effort. In a dynamic model, the size of the transfer can be conditioned on the country’s history of economic performance. The model predicts that the government can be induced to exert higher effort if the IMF makes future promised crisis transfers increasing in current economic performance.