Discussion
The Output Costs of Sovereign Default
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- **Mechanics:** Default $\Rightarrow$Returns (HF) $\Rightarrow$Output(LF, quarterly)
- **Fascinating question** $\Rightarrow$Lots of applications

Outline

1. Some perspective on costs of default
2. Description of the approach
3. Comments/Thoughts
   3.1 Methodology
   3.2 Relation to the models

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   - Combined with discount factor β, key free parameter(s)

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5. Asset prices measured at high frequency
   - Identification through Rigobon heteroskedascity approach
   - Advantages of this approach?

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  3. Short time series
- Use more data? Or other countries?
  - If relations are structural, it should not be a problem
  - One could run regressions of this type for Argentina, other SOE's

$$\Delta y_{t+k} = \sum \beta_k^j r_t^j + error$$

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4. **Suggestion**: write quantitative model calibrated to findings
   - Do other parameters change?

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    - Costs per level of y_t?

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3. Extrapolation from 0 to 60% or 100%,
   - But variation in risk neutral probability of $\pm 10\%$

Conclusion

- Very interesting question: how to link high frequency identification to important low frequency variables
- (Lots of) data limitations
- Perhaps useful to decouple exercise?
- Many applications!