

A Proposed Research Project: What Went Wrong? The Puerto Rican Debt Crisis and Lessons for the State of Illinois

Background: Several government units in Puerto Rico face imminent default on their debt obligations. This Puerto Rican Debt Crisis (PRDC) is an extreme situation that generates important insights into the functioning (or non-functioning) of financial markets.

Project Goal: Understand the PRDC and draw-out the lessons for academic research questions including

- Is the PRDC consistent with efficient financial markets? The question becomes germane because the debt load was clearly unsustainable.
- Did buyers of Puerto Rican government bonds believe that there is an implicit guarantee from the U.S. Treasury?
- Is a behavioral finance perspective (where psychological factors influence financial market participants) informative in this situation?

An understanding of the PRDC is also relevant for an insightful discussion of public policy issues. The latter pertain not only to Puerto Rico, but also debt-laden states such as Illinois.

Approach: Study the business press both in the United States and Puerto Rico and reports from government and financial institutions to understand the genesis, development, and resolution of the PRDC. Relevant data concerning the issuers and holders of Puerto Rican government debt will be collected. Understanding relevant laws and regulations for debt issuance will also be important for a proper understanding of the issues surrounding the PRDC.

Learning Goals: The student will obtain an appreciation of how a financial economics research project is initiated, executed, and completed. Additionally, the student will obtain expertise about an important and topical policy issue, one that may well have implications for the debt-laden State of Illinois.

Requirements and Time Table: The work required is equivalent to a normal three credit course. A paper describing the information accumulated and insights into the PRDC is required. The work will be “front-loaded,” and the paper due shortly after Spring Break.

Bob Chirinko
Department of Finance, UIC
601 S. Morgan St, 2333 University Hall, MC 168
Chicago, IL 60607
(312) 355-1262 office
<http://chirinko.people.uic.edu>
chirinko@uic.edu