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**DATE OF BIRTH:** 1 Feb 1975

**SEX:** M

**CITIZENSHIP:** British, Bulgarian

**UNDERGRADUATE STUDIES:**

1993 – 1996 – B.A. in Politics, Philosophy and Economics at Queen’s College,  
Oxford, Upper Second Class Honours

**GRADUATE STUDIES:**

2006 – Part Time PhD in Economics at London School of Economics  
2003 – 2006 Full Time PhD in Economics at London School of Economics  
1996 – 1998 – M.Phil. in Economics at the The Queen’s College, Oxford

THESIS TITLE: Credit Frictions and the Macroeconomy

EXPECTED COMPLETION DATE: 2010

**THESIS ADVISOR AND REFERENCES**

Dr Kosuke Aoki  
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**DESIRED TEACHING AND RESEARCH:**

Primary Fields: Macroeconomics, Monetary Economics, Macro-Finance

Secondary Fields: Adaptive Learning, Numerical Methods

**RELEVANT POSITIONS HELD:**

2006-2009 – Senior Economist in the Monetary Assessment and Strategy Division at the Bank of England

2002-2003 – Economist at the Economic Modeling and Forecasting Division at the Bank of England

1999-2002 – Economist in the Monetary Assessment and Strategy Division at the Bank of England

**LANGUAGES**

Basic Spoken	Fluent Spoken
Russian	Bulgarian
Serbo-Croat	English

Basic Written	Fluent Written
Russian	Bulgarian
	English

**COMPLETED PAPERS:**

***Job Market Paper:***

"Is Private Leverage Excessive?", First Draft September 2009

I examine whether a benevolent government setting capital requirements for private borrowers to maximise the ex ante welfare of economic agents can improve on the free market allocation in a stochastic model with collateral constraints. Previous theoretical studies have found that when asset prices enter into borrowing constraints, pecuniary externalities between atomistic agents can make the laissez faire equilibrium constrained inefficient. For reasonable parameter values, I find that the answer is 'no' - private and government leverage choices coincide. Limiting private leverage by imposing capital requirements has the beneficial effect of dampening the effects of

the ‘collateral amplification mechanism’. This reduces ‘fire sales’ in recessions and limits the negative externality that individual asset sales have on other credit constrained borrowers.

However, we find that capital requirements are a blunt tool. They tax the activities of highly productive entrepreneurs and reduce the amount they produce in equilibrium. This reduces total factor productivity and steady state consumption. In the end, society faces a choice between high but unstable consumption in the free borrowing world and low but stable consumption in the regulated world. The government chooses the former.

***Other Papers:***

“Winners and Losers in Housing Markets”, (joint with Nobu Kiyotaki and Alex Michaelides), Mimeo

This paper is a quantitatively-oriented theoretical study into the interaction between housing prices, aggregate production, and household behavior over a lifetime. We develop a life-cycle model of a production economy in which land and capital are used to build residential and commercial real estate. We find that, in an economy where the share of land in the value of real estates is large, housing prices react more to an exogenous change in expected productivity or the world interest rate, causing a large redistribution between net buyers and net sellers of houses. Changing financing constraints, however, has limited effects on housing prices.

“Bayesian optimal policy with parameter and model uncertainty“ (joint with Timothy Cogley, Christian Matthes, Bianca de Paoli and Tony Yates)

We examine optimal Bayesian monetary policy under parameter and model uncertainty. We estimate four macro models (Smets and Wouters (2007), Bernanke, Gertler and Gilchrist (1999) model, a small open economy New Keynesian model and Rudebusch and Svensson (1997)) on post-1992 UK data and compute posterior model weights. We then optimize a simple monetary policy rule to minimize expected welfare losses taking model and parameter uncertainty into account. Our findings are as follows. (i) The Smets and Wouters model receives the highest posterior model weight. (ii) The estimated degree of inflation inertia in all models is extremely low. (iii) Our optimized rule is very inertial (almost unit root) due to the dominant Smets-Wouters model.

“Rule based monetary policy under central bank learning”, (joint with Kosuke Aoki) 2004, in Clarida, Frankel, Giavazzi and West eds, *International Seminar on Macroeconomics 2004*

The paper evaluates the performance of three popular monetary policy rules when the central bank is learning about the parameter values of a simple New Keynesian model. The three policies are: (1) the optimal non-inertial rule; (2) the optimal history-dependent rule; (3) the optimal price-level targeting rule. Under rational expectations rules (2) and (3) both implement the fully optimal equilibrium by improving the output-inflation trade off. When imperfect information

about the model parameters is introduced, the central bank makes monetary policy mistakes, which affect welfare to a different degree under the three rules. The optimal history dependent rule is worst affected and delivers the lowest welfare. Price level targeting performs best under learning and maintains the advantages of conducting policy under commitment. The paper argues that adopting integral representations of rules designed under full information is desirable because they deliver the beneficial output-inflation trade-off of commitment policy while being robust to implementation errors.

“Monetary policy and stagflation in the UK” (joint with Ed Nelson) – *Journal of Money, Credit and Banking*, June 2004, 36(3), 293-318.

The volatile data for inflation, output, and interest rates in the United Kingdom prior to the 1990s, provide a rich basis for discriminating between rival explanations for the outbreak of stagflation. Alternative hypotheses are examined with the aid of a New Keynesian model of aggregate demand and inflation determination, estimated on quarterly UK data for 1959-2000. Using model simulations as well as information on the real-time views of policy-makers, alternative explanations are tested for the outbreak of inflation in the United Kingdom in the 1960s and 1970s. Inaccurate estimates of the degree of excess demand in the economy are found to have contributed significantly to the outbreak. But there is also evidence of a major role following from the failure at the time to recognise the importance of monetary policy, as opposed to non-monetary devices, in controlling inflation.

*The Bank of England Quarterly Model* (joint with Richard Harrison, Meghan Quinn, Gareth Ramsay, Alasdair Scott and Ryland Thomas), 2004, Bank of England

This is a book which describes the philosophy and structure of the current macro-economic model at the Bank of England.

“UK inflation in the 1970s and 1980s: the role of output gap mis-measurement” (joint with Ed Nelson) *Journal of Economics and Business* Vol. 55(4), July/August 2003, pp 353-370.

Understanding the degree of measurement error in the estimates of the output gap available to policy-makers in 'real time' is important both for the formulation of monetary policy and for the study of inflation. For the United Kingdom, no official output gap series exists, but an approximate series can be deduced from analysis of statistical releases and policy-makers' statements. On this basis, a real-time UK output gap series is constructed, beginning in 1965, and it is therefore possible to obtain estimates of the extent of real-time output gap mis-measurement in the 1970s and 1980s. Monetary policy errors due to output gap mis-measurement are found to

have contributed approximately 3.0 to 7.1 percentage points to average UK inflation in the 1970s and 0.7 to 5.5 percentage points to inflation in the 1980s.

“Financial frictions and the monetary transmission mechanism: theory, evidence and policy implications” (joint with Charles Bean and Jens Larsen) – ECB Working Paper No 113 (January 2002)

This paper provides a brief survey on the role of financial frictions in the monetary transmission mechanism. After discussing some of the stylised facts that any model of the transmission mechanism needs to be consistent with, we review the evidence on the interest rate and the credit and bank lending channels of monetary transmission. Finally we consider in a simple New Keynesian model how the presence of financial frictions might affect the conduct of monetary policy.

**RESEARCH IN PROGRESS:**

“A Model of Borrower Reputation as Intangible Collateral”, Mimeo

In this paper, we build a framework which can generate fluctuations in down-payment requirements. We extend the framework of Kiyotaki and Moore (1997) by considering an environment, in which savers can keep their anonymity but borrowers and users of high productivity technologies cannot. This allows lenders to punish defaulting borrowers by excluding them from future borrowing and production using the latest technology. They cannot however stop them from saving in the anonymous financial market. We show how the possibility of such market exclusion can lead to the emergence of intangible collateral in equilibrium alongside the tangible collateral which is usually studied in the literature.