LSE Economics PhD Placement:
Job Market Candidates

Placement Officer: Professor Leonardo Felli

NAME:	Thomas Schelkle
ADVISOR:	Prof. Francesco Caselli
PRIMARY FIELD:	Macroeconomics
SECONDARY FIELDS:	Financial Economics Development Economics Computational Methods
REFERENCES:	Prof. Francesco Caselli Dr. L. Rachel Ngai Prof. Wouter den Haan

JOB MARKET PAPER:
Mortgage Default during the U.S. Mortgage Crisis

ABSTRACT:
This paper asks which theories of mortgage default are quantitatively consistent with observations in the United States during 2002-2010. Theoretical models are simulated for the observed time-series of aggregate house prices. Their predictions are then compared to actual default rates on prime fixed-rate mortgages. An out-of-sample test discriminates between estimated reduced forms of the two most prominent theories. The test reveals that the double-trigger hypothesis attributing mortgage default to the joint occurrence of negative equity and a life event like unemployment outperforms a frictionless option-theoretic default model. Based on this finding a structural partial-equilibrium model with liquidity constraints and idiosyncratic unemployment shocks is presented to provide micro-foundations for the double-trigger hypothesis. In this model borrowers with negative equity are more likely to default when they are unemployed and have low liquid wealth. The model explains most of the observed strong rise in mortgage default rates. A policy implication of the model is that subsidizing homeowners can mitigate a mortgage crisis at a lower cost than bailing out lenders.

HOME:
52 Kendal House
50 Collier Street
London N1 9DE
United Kingdom

Mobile: +44 (0)7942 310731
Email: t.schelkle@lse.ac.uk

OFFICE:
Economics Department
London School of Economics
Houghton Street
London WC2A 2AE
United Kingdom