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PERSONAL

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MAJOR FIELDS OF CONCENTRATION

Macroeconomics, Dynamic contracts, Economic Development

EDUCATION

<u>Degree</u>	<u>Field</u>	<u>Institution</u>	<u>Year</u>
Ph.D.	Economics	University of Iowa	July 2009 (expected)
B.A.	International Economics	UNWE, Sofia	December 2000

DISSERTATION

Title: Essays in Dynamic Contracting with Costly Verification and Costly Enforcement

Dissertation Advisors: B. Ravikumar (chair), Srihari Govindan, Yuzhe Zhang

Completion: July 2009 (expected)

EXPERIENCE

Teaching Experience

Instructor, Principles of Macroeconomics, University of Iowa, Spring 2008

Teaching Assistant, Principles of Microeconomics, University of Iowa, Fall 2004, Spring 2005, Fall 2007

Teaching Assistant, Macroeconomics I (Graduate), University of Iowa, Fall 2005, Fall 2006

Teaching Assistant, Economic Analysis II (Graduate), University of Iowa, Spring 2006, Spring 2007

PAPERS/WORK IN PROGRESS

“Enforcement Frictions and Optimal Lending Contracts,” (Job Market Paper), October 2008

“Costly State Verification and Dynamic Contracts,” University of Iowa manuscript, August 2008

“Efficient Capital Accumulation and Distribution in an Economy with Private Information,” with Aubhik Khan and B. Ravikumar, work in progress

PRESENTATIONS

“Costly State Verification and Dynamic Contracts,”

Iowa Alumni Workshop, University of Iowa, April 2007

Public Economic Theory Conference , Vanderbilt University, July 2007

Midwest Macroeconomics Meetings, University of Pennsylvania, May 2008

HONORS

Seashore Dissertation Year Fellowship, The University of Iowa, 2008-09

Outstanding Teaching Assistant Award, The University of Iowa, 2005 and 2006

REFERENCES

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Essays in Dynamic Contracting with Costly Verification and Costly Enforcement

Latchezar Popov

University of Iowa

Abstract

Enforcement Frictions and Optimal Lending Contracts (Job Market Paper)

Recent research has shown the importance of limited commitment for optimal dynamic contracts. I consider an environment in which contract enforcement is a decision variable for the principal. I construct a model in which entrepreneurs cannot commit to repaying investors for the capital advanced, but investors can force repayment by spending resources. The principal uses enforcement to reduce the resources available to the agent after a default, thus providing incentives for the agent to stay in the relationship. He also ensures contract compliance by *backloading* the payments to the agent: expected utility rises over time, preventing a default. I consider two applications of the framework developed in the paper. The first is in firm dynamics. I show that enforcement and backloading are always used jointly. Firm size (measured by capital) grows with time and each firm attains efficient size in finite time. Enforcement is generally nonmonotone in capital and it is used more heavily for medium-sized firms. The second is in the field of economic development. I compare the stationary equilibria in two economies with differing enforcement costs. Higher enforcement cost eliminates investment in high risk - high return enterprises and distorts the distribution of firm sizes. This can explain observed differences in total factor productivity between poor and rich countries.

Costly State Verification and Dynamic Contracts

In many economic environments with private information, one party of the relationship can get a costly signal (perfect or imperfect) about the other party's private information. This paper considers the optimal contract between risk-averse agent and a risk-neutral principal in a private information endowment economy with the possibility of verification. I examine the use of different tools to provide incentives - both static (verification) and dynamic (continuation utilities). I find that an agent whose income has been verified gets strictly higher consumption and continuation utility than an unverified one. Risk-aversion (and stochastic verification) implies that there is a downward trend in promised utility. I show that for some parameterizations the principal will use verification for any finite verification cost. The optimal verification probability is generally nonmonotone in promised utility.

Efficient Capital Accumulation and Distribution in an Economy with Private Information (with Aubhik Khan and B. Ravikumar)

We introduce capital accumulation into an economy where individuals have private information with respect to productivity shocks. Capital and consumption allocations must be consistent with incentive constraints induced by private information and with an aggregate resource constraint. The aggregate resources are endogenized in the model, so our notion of efficiency is in minimizing the initial capital required to attain an arbitrary distribution of initial utility promises. In an environment with i.i.d. shocks, the planner allocates more capital to agents with a history of high productivity reports, even though the expected marginal product of capital may be lower.