

## RESEARCH PROJECTS 2013

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### **Project Title**

Income Distribution and Sovereign Credibility in Emerging Market Countries

### **Principle Investigator(s)**

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### **Abstract**

My proposed research will explore how income inequality affects the investor perceptions of sovereign creditworthiness in emerging market countries around the world. Building credibility in financial markets is an important task if governments are to prevent capital flight and maintain market stability. Earning market confidence is especially important for emerging market countries, as these economies have experienced widespread sovereign defaults and/or debt restructuring in recent decades. I specifically pay attention to the effect of income inequality on sovereign credibility via political routes. I will explore whether the impact of income inequality on investor perception is mainly through increased political risk and instability, or income inequality directly affects market sentiment even when political problems are negligible. I further test how income volatility affects political stability and market sentiment, because income volatility may exert more damaging effects on a society than a constantly high level of inequality.

