



## Research Working Papers

# Sovereign Risk and Fiscal Information: A Look at the U.S. State Default of the 1840s

by: Huixin Bi and Nora Traum

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A new measure of fiscal information shows that fiscal news affects the evolution and contagion of sovereign default.

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This paper examines how newspaper reporting affects government bond prices during the U.S. state default of the 1840s. Using unsupervised machine learning algorithms, the paper first constructs novel "fiscal information indices" for state governments based on U.S. newspapers at the time. The impact of the indices on government bond prices varied over time. Before the crisis, the entry of new western states into the bond market spurred competition: more state-specific fiscal news imposed downward pressure on bond prices for established states in the market. During the crisis, more state-specific fiscal information increased (lowered) bond prices for states with sound (unsound) fiscal policy.

JEL Classification: E62, H30, N41

## Article Citations

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## Related Research

- Baker, Scott R., Nicholas Bloom, and Steven J. Davis. 2016. "[Measuring Economic Policy Uncertainty](#)." *Quarterly Journal of Economics*, vol. 131, no. 4, pp. 1593–1636.
  - Calomiris, Charles W., and Harry Mamaysky. 2018. "[How News and its Context Drive Risk and Returns around the World](#)." NBER Working Paper no. 24430, March.
  - Hansen, Stephen, Michael McMahon, and Andrea Prat. 2018. "[Transparency and Deliberation within the FOMC: A Computational Linguistics Approach](#)." *Quarterly Journal of Economics*, vol. 133, no. 2, pp. 801–870.
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## Author



### Huixin Bi

#### Research and Policy Officer

Huixin Bi is a Research and Policy Officer in the Economic Research Department of the Federal Reserve Bank of Kansas City. Previously, Ms. Bi served as an economist at the Bank of Canada from 2010 to 2015. Her main areas of research are fiscal policy, sovereign debt and computational economics. She holds a B.S. in engineering from Nankai University in China, a M.S. in engineering at Rose-Hulman Institute of Technology, and a Ph.D. in economics from Indiana University.

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