Brief report on: A Tale of Two Debt Crises, by Jerome Stein, MS 353

Professor Stein's study explores not only theoretical elements of optimal debt ratio but also presents empirical analysis of recent debt crises. Based on a simple yet comprehensive stochastic control model, the author provides insights on price bubbles, discussing analogies between the agricultural debt crisis in 2007 and the more recent subprime mortgage crisis. Thus, the study is pertinent.

With the aid of the Value-at-Risk concept, the author derives an early warning signal that anticipates debt problems and that may have important uses for finance practitioners and regulators. Results of the model are thoroughly discussed and the author explains fundamentals and intuition behind actual debt crises. In this sense, the article is of great interest to readers of the journal.

There are few minor typos that do not raise any concerns. However, in special, equations 2 and 2a in page 6 have to be adjusted. If $b(t) = (dP/P) + beta(t)$, as suggested in page 8, then equation 2a has an extra dt and equation 2 must close brackets after beta(t).