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Moral Hazard under the Effect of Bailout and Bailin Events: A Markov Switching Model

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Abstract : To curb the problem of liquidity in times of financial crises, two cases arise; the Bailout or Bailin, two opposite choices that elicit the analysis of their effect on moral hazard. This paper attempts to empirically analyze the effect of these two types of events on the behavior of investors. For this end, we use the Emerging Market Bonds Index (EMBI-JP Morgan), and its excess of return, to detect the change in the risk premia through a Markov switching model. The results showed the transition to two types of regime and an effect on moral hazard; Bailout is an incentive of moral hazard, Bailin effectiveness remains subject of credibility.
Keywords : Bailout, Bailin, Moral hazard, financial crisis, Markov switching
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