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| Title | Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment |
| Authors | Karlan and Zinman |
| Journal | Econometrica |
| Year etc. | Nov., 2009 |
| Research question | How can we address information asymmetry problems in empirical specification?  : Three key questions  Which models of information asymmetries (if any) accurately describe existing markets?  What lending practices are effective at mitigating information asymmetries?  What are the welfare implications of resolving information asymmetry problems in credit markets? |
| Country | South Africa |
| Sample size | 57,533 |
| Unit of obs. | A client with good repayment history |
| Time range | Three waves: July, September and October 2003 |
| Identification strategy | Experiment: Loan officers offer the clients loans, and the clients make decision whether to apply and the size of the contract according to the ex ante interest rate. After the decision, then we assign a part of clients that take two treatments: the first is to lower the actual contract rate, and the second is to apply the lower rate for one year, or to give dynamic incentives.  Specification: OLS, which regress three measures of repayment behavior of the borrowers on the treatment-specific dummy. |
| Findings | Results indicate significant moral hazard while the evidence for adverse selection on hidden information is weaker.  Positive and significant effect was observed about the contract rate, which corresponded to the hidden effect 1. The hidden effect 2, existence of dynamic repayment incentives also showed the significant effect. On the other hand, the offer rate on default did not implied significant effect, or the adverse selection. |
| Contribution (novel points) | They formalized the way to design the experiment to specify the hidden information from hidden action effects. Their methodologies can be applied to other product or services. |
| Note/Remark |  |