Discussion of

Observing Unobservables: Identifying Informational Asymmetries with a Consumer Credit Field Experiment

&

A Reexamination of the Role of “Relationships” in the Loan Granting Process

Ed Nosal
Federal Reserve Bank of Cleveland
Economists have identified some informational asymmetries that may exist in the market for loans.
Economists have identified some informational asymmetries that may exist in the market for loans

– *Adverse selection*: the quality of the “project” that underlies the loan unknown
Economists have identified some informational asymmetries that may exist in the market for loans

– *Adverse selection*: the quality of the “project” that underlies the loan unknown

– *Moral Hazard*: how hard borrower willing to work to payoff loan unknown
Are these information asymmetries something that a banker should be concerned about?
Are these information asymmetries something that a banker should be concerned about?

Yes … *if they exist*
• Example: Banker can’t observe quality of the project that underlies loan
• Example: Banker can’t observe quality of the project that underlies loan
• Charges interest rate associated with “average” quality project
• Example: Banker can’t observe quality of the project that underlies loan

• Charges interest rate associated with “average” quality project

• Average interest rate attracts only low quality projects
• Example: Banker can’t observe quality of the project that underlies loan

• Charges interest rate associated with “average” quality project

• Average interest rate attracts only low quality projects

• Banks will lose money on these loans
Questions
Questions

1. Do informational asymmetries exist in the loans market?
Questions

1. Do informational asymmetries exist in the loans market?

2. If yes, how do bankers deal with them?
1. Do informational asymmetries exist? (Karlan and Zinman)
1. Do informational asymmetries exist? (Karlan and Zinman)

• Adverse selection: females
1. Do informational asymmetries exist? (Karlan and Zinman)

• Adverse selection: females

• Moral Hazard: males
Implications:
Implications:

- Males and females should be given different loan contracts
Implications:

• Males and females should be given different loan contracts

• Offering different contracts problematic … discriminatory
2. How might bankers deal informational asymmetries?
2. How might bankers deal informational asymmetries?

Relationships (Chakravarty and Yilmazer)
2. How might bankers deal informational asymmetries?

Relationships (Chakravarty and Yilmazer)

Overtime informational problems decrease
Chakravarty and Yilmazer
Chakravarty and Yilmazer

- “Discrimination” occurs at the loan application and loan approval stages
Chakravarty and Yilmazer

- “Discrimination” occurs at the loan application and loan approval stages
- Bad types weeded out at these stages … survivors get same loan rate
Parting Question
Parting Question

• Bankers (in a relationship) seem to be throwing away valuable information (and profits!)
Parting Question

• Bankers (in a relationship) seem to be throwing away valuable information (and profits!)

• Instead of rejecting loan, why not charge higher interest rate?