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

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– ***Moral Hazard*: how hard borrower willing to work to payoff loan unknown**

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Yes … *if they exist*

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- **Average interest rate attracts only low quality projects**

- **Banks will lose money on these loans**

Questions

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1. Do informational asymmetries exist in the loans market?

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2. **If yes, how do bankers deal with them?**

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- **Adverse selection: females**
- **Moral Hazard: males**

Implications:

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- Offering different contracts problematic … discriminatory

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> **Overtime informational problems decrease**

Chakravarty and Yilmazer

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- Bad types weeded out at these stages … survivors get same loan rate

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- Bankers (in a relationship) seem to be throwing away valuable information (and profits!)
- Instead of rejecting loan, why not charge higher interest rate?