

## Accepted Manuscript

Follow the Money not the Cash: Comparing Methods for Identifying Consumption and Investment Responses to a Liquidity Shock

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PII: S0304-3878(15)00120-0  
DOI: doi: [10.1016/j.jdeveco.2015.10.009](https://doi.org/10.1016/j.jdeveco.2015.10.009)  
Reference: DEVEC 2034

To appear in: *Journal of Development Economics*

Received date: 22 November 2014  
Revised date: 15 September 2015  
Accepted date: 28 October 2015



Please cite this article as: Karlan, Dean, Osman, Adam, Zinman, Jonathan, Follow the Money not the Cash: Comparing Methods for Identifying Consumption and Investment Responses to a Liquidity Shock, *Journal of Development Economics* (2015), doi: [10.1016/j.jdeveco.2015.10.009](https://doi.org/10.1016/j.jdeveco.2015.10.009)

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## Follow the Money not the Cash: Comparing Methods for Identifying Consumption and Investment Responses to a Liquidity Shock

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August 2015

### Abstract

Measuring the impacts of liquidity shocks on spending is difficult methodologically but important for theory, practice, and policy. We compare three approaches for tackling this question: directly asking borrowers how they spend proceeds from a loan (direct elicitation); asking borrowers using a list randomization technique (indirect elicitation) that allows them to answer discretely in cases where loan uses are at odds with lender policies or social norms; and, a counterfactual analysis in which we compare household and enterprise cash outflows for those in a treatment group, randomly assigned to receive credit, to a control group. The counterfactual analysis yields an estimate that about 100% of loan-financed spending is on business inventory. For the direct and indirect elicitations, we find evidence of both strategic misreporting and “following the cash”: borrowers likely report what they physically did with cash proceeds, rather than counterfactual spending.

Keywords: loan use; consumption; investment; liquidity constraint; liquidity shock; fungibility; microcredit; microenterprise

JEL: D12; D22; D92; G21; O12; O16

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