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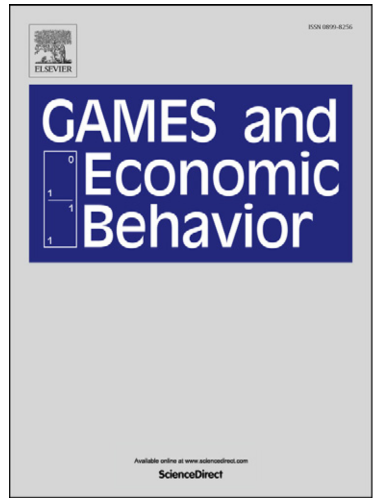

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Does Team Competition Increase Pro-Social Lending? Evidence from Online Microfinance

Roy Chen[a,1], Yan Chen[b,c,*], Yang Liu[b,2], Qiaozhu Mei[b,2]

[a]*Department of Economics, Faculty of Art and Social Sciences, National University of Singapore, AS2 #06-02, 1 Arts Link, Singapore 117570*
[b]*School of Information, University of Michigan, 105 South State Street, Ann Arbor, MI 48109, United States*
[c]*Department of Economics, School of Economics and Management, Tsinghua University, Beijing, China*

Abstract

We investigate the effects of team competition on pro-social lending activity on Kiva.org, the first microlending website to match lenders with entrepreneurs in developing countries. Using naturally occurring field data, we find that lenders who join teams contribute 1.2 more loans ($30-$42) per month than those who do not. To further explore factors that differentiate successful teams from dormant ones, we run a large-scale randomized field experiment ($n = 22,233$) by posting forum messages. Compared to the control, we find that lenders make significantly more loans when exposed to a goal-setting and coordination message, whereas goal-setting alone significantly increases lending activities of previously inactive teams. Our findings suggest that goal-setting and coordination are effective mechanisms to increase pro-social behavior in teams.

JEL Classification: C1, C93, D64, H41

Keywords: social identity, pro-social lending, microfinance, field experiment

1. Introduction

Understanding strategies to increase pro-social behavior is of major interest across the social sciences. The sizeable mechanism design literature has identified innovative tax-subsidy rules to reduce free-riding in the presence of public goods when a central authority can enforce the rules. Under the VCG mechanism, it is a dominant strategy for individuals to reveal their true values for the public good when preferences are quasi-linear, although the allocation is not fully Pareto efficient (Vickrey, 1961; Clarke, 1971; Groves, 1973). Preserving Pareto optimality at the cost of non-manipulability,

*Corresponding author.
Email addresses: ecscwr@nus.edu.sg (Roy Chen), yanchen@umich.edu (Yan Chen), owenliu@umich.edu (Yang Liu), qmei@umich.edu (Qiaozhu Mei)
[1]National University of Singapore. Phone: +65 6516 3967.
[2]University of Michigan. Phone: +1 734 764 9488.