

Accepted Manuscript

Title: Collateral in credit rationing in markets with asymmetric information

Author: Juha-Pekka Niinimäki

PII: S1062-9769(16)30107-7
DOI: <https://doi.org/10.1016/j.qref.2017.10.001>
Reference: QUAECO 1078



To appear in: *The Quarterly Review of Economics and Finance*

Received date: 27-10-2016
Revised date: 4-9-2017
Accepted date: 14-10-2017

Please cite this article as: & Niinimäki, Juha-Pekka., Collateral in credit rationing in markets with asymmetric information. *Quarterly Review of Economics and Finance* <https://doi.org/10.1016/j.qref.2017.10.001>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Collateral in credit rationing in markets with asymmetric information

Juha-Pekka Niinimäki, Department of Economics, University of Turku, 20014 Turku, Finland

juhni@utu.fi , niinimaki.j@outlook.com

Highlights

- The introduction of outside collateral (personal assets) may generate negative incentives.
- The borrower gambles for resurrection by continuing an inefficient bad project or by gambling with the value of the collateral asset.
- By winning the gamble the borrower can save the collateral asset.
- Moral hazard is avoided when the volume of collateral is small or large, as it occurs in the middle range of collateralization.
- The eliminate moral hazard each loan should be fully secured and the value of the collateral assets should be fixed.

Abstract: We study an incentive model of lending in which a borrower can pledge a personal asset as outside collateral. We examine how the value of the collateral affects the borrower's incentives and the lender's returns. In some scenarios moral hazard is avoided without the collateral but the introduction of the collateral may generate negative incentives. The borrower attempts to save his collateral asset by gambling for resurrection with the project output or by gambling with the value of the collateral. These negative incentives make credit rationing optimal. The findings provide recommendations on the optimal use of collateral.

Download English Version:

<https://daneshyari.com/en/article/7383381>

Download Persian Version:

<https://daneshyari.com/article/7383381>

[Daneshyari.com](https://daneshyari.com)