

Using Repayment Data to Test Across Models of Joint Liability Lending

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Abstract

Theories rationalizing joint liability lending are rich in implications for repayment rates. We exploit this fact to test four diverse models. We show that the models' repayment implications do not always coincide. For example, higher correlation of output and borrowers' ability to act cooperatively can raise or lower repayment, depending on the model. Data from Thai borrowing groups suggest that repayment is affected negatively by the joint liability rate (*ceteris paribus*) and social ties, and positively by the strength of local sanctions and correlated returns. Further, the relative fit of the adverse selection versus informal sanctions models varies by region.