JOURNAL ARTICLE

# Thy Neighbor's Keeper: The Design of a Credit Cooperative with Theory and a Test

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## Abstract

Economists now appreciate that resource allocation in less economically developed economies is profoundly influenced by nonfirm economic institutions. However, our theories of nonfirm institutions often suggest different answers to many questions including those of policy. This paper illustrates a method for discriminating between alternative theories using data from German credit cooperatives from nineteenth and early twentieth century Germany. We build a model of credit cooperatives designed to provide monitoring incentives and test this using nineteenth century data.