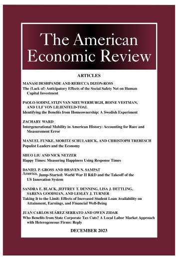
AMERICAN ECONOMIC ASSOCIATION



American Economic Review
ISSN 0002-8282 (Print) | ISSN 1944-7981 (Online)

Competition in Loan Contracts

Christine A. Parlour

Uday Rajan

AMERICAN ECONOMIC REVIEW
VOL. 91, NO. 5, DECEMBER 2001
(pp. 1311–1328)

Download Full Text PDF

Article Information

Abstract

We present a model of an unsecured loan market. Many lenders simultaneously offer loan contracts (a debt level and an interest rate) to a borrower. The borrower may accept more than one contract. Her payoff if she defaults increases in the total amount borrowed. If this payoff is high enough, deterministic zero-profit equilibria cannot be sustained. Lenders earn a positive profit, and may even charge the monopoly price. The positive-profit equilibria are robust to increases in the number of lenders. Despite the absence of asymmetric information, the competitive outcome does not obtain in the limit.

Citation

Parlour, Christine, A., and Uday Rajan. 2001. "Competition in Loan Contracts." *American Economic Review*, 91 (5): 1311–1328.

DOI: 10.1257/aer.91.5.1311

Choose Format:

JEL Classification

G21 Banks; Other Depository Institutions; Micro Finance Institutions; Mortgages

L13 Oligopoly and Other Imperfect Markets