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≡ Menu

Competition in Loan Contracts

Christine A. Parlour

Uday Rajan

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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

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