

The Emergence of Information
Sharing
in Credit Markets
Martin Brown and Christian Zehnder

Discussion by Inessa Love,
DECRG-FP

Motivation

- How do private information sharing mechanisms emerge?
- Two opposing forces:
 - Higher information asymmetry (adverse selection and moral hazard) – more likely information sharing
 - Higher competition – less likely sharing.
- No data to test these conjectures
- Adopt experimental design to answer the question on which force dominates and to quantify the impact

Design Features

- Simplifying Assumptions:
 - One bank per area/sector
 - One credit bureau
 - One type of info (no positive/negative)
 - One banking relationship
 - No history
 - Sequential joining of credit bureau within region, simultaneous across regions
 - Simplified distribution of borrowers' quality
 - 3 bad ones with -100% return and 1 good one with 200% return.
 - Asymmetric info introduced by moving
 - Everyone in the sector moves together
- Nevertheless, it's a fairly complex game
 - Instructions manual 17 pages, test for comprehension

Experimental vs. Real Life

- How realistic are these assumptions?
 - Some measures are not comparable
 - Eg. extent of adverse selection, moving patterns,
 - How do 4 regimes match real data in terms of magnitudes?
 - Bank approaches the borrower with a loan proposal
 - Is moving related to access?
 - Do people move after they are denied credit?
 - Are those who moved rejected more?
- How sensitive are the results to changing some of the assumptions?
 - Increasing the range of competition parameter and/or decreasing the range of “moving” parameter may produce very different results on which is more important

Further Thoughts

- Sensitivity analysis to changing parameters
- Confirm with real data
 - Several measures of information availability:
 - Accounting quality: GAAP compliance, earnings manipulation, analyst's forecast, disclosure standards, etc.
 - Co-movement of stock prices (Morck and Yeung)
- Policy Implications?
 - What can we learn from this experiment? What can we do to promote credit bureaus?