Innovations for Poverty Action

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Long-Run Price Elasticities of Demand for Credit:
Evidence from a Countrywide Field Experiment in Mexico[1]

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Abstract

The long-run price elasticity of demand for credit is a key parameter for intertemporal modeling, policy levers, and lending practice. We use randomized interest rates, offered across 80 regions by Mexico's largest microlender, to identify a 29-month dollars-borrowed elasticity of -1.9. This elasticity increases from -1.1 in year one to -2.9 in year three. The number of borrowers is also elastic. Credit bureau data does not show evidence of crowd-out. Competitors do not respond by reducing rates, perhaps because Compartamos' profits are unchanged. The results are consistent with multiple equilibria in loan pricing.

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