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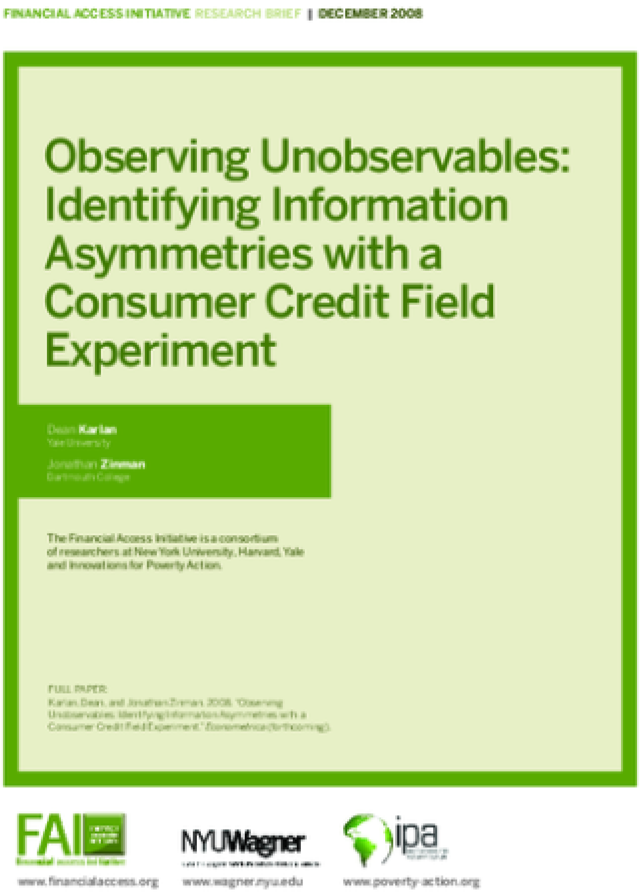
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Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment

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Identifying Information Asymmetries with a Consumer Credit Field Experiment

Information asymmetries complicate financial relationships. They give rise to problems that force lenders, for example, to rely on contracts that are secondbest solutions both from their own and from borrowers' perspectives. But while these problems, namely adverse selection and moral hazard, are important in theory, they are difficult to identify and disentangle in practice. Researchers Dean Karlan and Jonathan Zinman take up the challenge with an innovative research methodology. Using an experimental design that randomizes along three dimensions and working with a South African lender, the study isolates the effects of adverse selection and moral hazard, finding strong evidence of moral hazard and weaker evidence of adverse selection on hidden information.

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