

**Authors**

Abhijit Banerjee  
Massachusetts Institute of Technology

Esther Duflo  
Massachusetts Institute of Technology

## Giving Credit Where it is Due

Abhijit V. Banerjee and Esther Duflo\*

March 12, 2010

### Abstract

This paper shows how the productive interplay of theory and experimental work has furthered our understanding of credit markets in developing countries. Descriptive facts motivated a body of theory, which in turn motivated experiments designed to test it. Results from these experiments reveal both the success and the limits of the theory, prompting new work to refine it. We argue that the literature on credit can be a template research in other domains. *JEL: O16 O53 Keywords: Credit Markets; Field Experiments*

After a period of relative marginalization, development economics has now reemerged into the mainstream of most economics departments, attracting some of the brightest talents in the field. It is no longer the preserve of development “experts” who pronounce on the strange ways of the world outside high-income countries, but instead serves as a testing ground for fundamental economic theories and the source of exciting new ideas. There is, of course, nothing entirely new about this. Innovative theoretical ideas from people such as George Akerlof and Joseph Stiglitz were inspired by thinking about the developing world. Pranab Bardhan and T. N. Srinivasan, and, slightly later, Angus Deaton and Mark Rosenzweig also resisted the compartmentalization of the field into development and the rest. Nevertheless the extent to which, today, economists in many other fields routinely think about the application of their ideas and techniques in development contexts, seems unprecedented. This new centrality is excellent news for the field and, we venture to hope, for the world it studies.

We believe that one of the reasons for the field’s vitality is the opportunity it offers to successfully integrate theoretical thinking and empirical testing, and the rich dialogue that can

\*MIT, NBER, CEPR and DHEAD

# Giving Credit Where it is Due

This paper shows how the productive interplay of theory and experimental work has furthered our understanding of credit markets in developing countries. Descriptive facts motivated a body of theory, which in turn motivated experiments designed to test it. Results from these experiments reveal both the success and the limits of the theory, prompting new work to refine it. We argue that the literature on credit can be a template research in other domains.

March 01, 2010