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**Interlinked Transactions and Pass-Through:
Experimental Evidence from Sierra Leone***

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Abstract

Interlinked transactions in which output prices are determined jointly with the terms of a credit contract are an important feature of many business relationships, particularly in developing economies. We present results from a randomized experiment designed to study how value is passed along the agricultural supply chain in the presence of such interlinkages. In response to an increase in a trader's wholesale price, we find limited pass-through of the price to farmers. However we also find a large increase in the likelihood that traders provide credit to farmers, suggesting that the value of the wholesale price increase was passed to farmers along a different margin. We develop a model of interlinked transactions that shows how price and credit pass-through are determined, and verify its predictions empirically. Our work suggests that the presence of interlinkages is a candidate explanation for low rates of price pass-through that have been observed, but one with substantially different implications for welfare than others.

JEL Classification: O13, F14, Q13, Q14

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Interlinked transactions in which output prices are determined jointly with the terms of a credit contract are an important feature of many business relationships, particularly in developing economies. We present results from a randomized experiment designed to study how value is passed along the agricultural supply chain in the presence of such interlinkages. In response to an increase in a trader's wholesale price, we find limited pass-through of the price to farmers. However we also find a large increase in the likelihood that traders provide credit to farmers, suggesting that the value of the wholesale price increase was passed to

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