

Authors

Lorenzo Casaburi
University of Zurich

Tristan Reed
World Bank

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

Lorenzo Casaburi[†] Tristan Reed[‡]

April 20, 2014

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 Classifications: O13, F14, Q13, Q14

Keywords: Pass-through, interlinked transactions, intermediated trade, agricultural markets.

*We thank Philippe Aghion, Phil Antràs, Dave Donaldson, Pascaline Dupas, Fred Finan, Robert Gibbons, Rachel Glenister, Gita Gopinath, Oliver Hart, Qing Jia, Michael Kremer, Ted Miguel, Etienne Rossi, Hansong, Tareket Saiti and workshop participants at CSAE Oxford, Harvard, MIT, NBER, Paris School of Economics, UC Berkeley, UC San Diego and Stanford for helpful suggestions and comments. Derrick Brown, Grant Bridgman, Felix Kato and Fatoumata Momoh provided excellent research assistance. We gratefully acknowledge the financial support of the International Growth Center and the Agricultural Technology Adoption Initiative, and the institutional support of Innovations for Poverty Action in Freetown.

[†]Stanford University. Address: Stanford Institute for Economic Policy Research (SIEPR), John A. and Cynthia Fry Gunn Building 366 Galvez Street, Stanford, CA 94305-0015; E-mail: casaburi@stanford.edu

[‡]Harvard University. Address: Harvard University, Department of Economics, Littauer Center, 1805 Cambridge Street, Cambridge MA 02138; E-mail: treed@fas.harvard.edu.

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

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 passthrough 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.

June 17, 2015