

RESEARCH PROJECTS 2013

Project Title

Private Sector Financial Contract Design to Overcome Public Sector Inefficiencies in Emerging Markets

Principle Investigator(s)

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Abstract

Emerging markets are typically characterized by various inefficiencies in their public sector framework for doing business. We focus on inefficiencies in enforcing financial contracts, e.g., lengthy delays in settling lawsuits. When financial contracts are hard to enforce, then lenders worry that borrowers can hold up future payments on loans. This might lead these lenders to seek higher interest rates, and this can crowd out many profitable investment projects. We seek to examine whether there are any financial contracts that private lenders and firms can write to circumvent this problem. We intend to use a judicial reforms in India that reduced enforcement costs, and examine whether theories that explicitly address contracting under enforcement problems work in the real world. Although the project will use the case of India to identify causal effects cleanly from a staggered reform, our work will have implications for contracting in many other emerging markets that face similar problems in judicial enforcement.

