



## Banks, Informal Money Lenders and Asymmetric Information

By Patrick Avato

GRIN Verlag. Paperback. Condition: New. 28 pages. Dimensions: 8.5in. x 5.5in. x 0.1in. Seminar paper from the year 2005 in the subject Economics - Monetary theory and policy, grade: A 1, 0, Johns Hopkins University (School of Advanced International Studies (SAIS)), course: Theories and Models of Economic Development, 29 entries in the bibliography, language: English, comment: Development Finance, Microfinance, Asymmetric Information, Rural Credit Markets, Stiglitz Weiss, informal money lenders, Financial System , abstract: Credit markets in developing countries differ substantially from their counterparts in OECD countries. Apart from the obvious differences in institutional development, technology and productivity which are both measures for and causes of underdevelopment, typical LDC credit markets have two main characteristics. Firstly, their financial systems are very small compared those in industrial economies. Secondly, developing countries are characterized by very big informal financial sectors that coexist with formal credit institutions. Interestingly, credit contracts differ highly between these two sectors and there seems to be only very limited inter-sector competition. The following paper ventures to explain the persistence of these peculiarities in rural credit markets<sup>1</sup> using the model of asymmetric information in credit markets developed by Stiglitz and Weiss. By applying the model specifically to LDC credit markets...



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