Discussion of
"Psychological and Social Motivations in Microfinance Contracts: Theory and Evidence"

by Dhami, Arshad, and al-Nowaihi

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Summary

- Psychological factors that explains effort choices and repayment rates under different microfinance contracts

- A theory of shame and guilt

- Empircal evidence from the lab

- Very exciting project!

Main Findings

Table 5

First-Period Contracts		
Repayment **Liability**	**Private (*I*)** Unobservable to a third party	**Public (*P*)** Observable to a third party
Individual Liability (*IL*) Borrower gets 2nd period loan only if the 1st period loan is repaid.	*ILI* Emotions absent No Private Signal No Public Signal	*ILP* Shame No Private Signal Public Signal s
Joint Liability (*JL*) Borrower gets 2nd period loan only if all group members repay their 1st period loans.	*JLI* Guilt Private Signal θ_i No Public Signal	*JLP* Guilt & Shame Private Signal θ_i Public Signal s
Second-Period Contracts		
Individual Liability (*IL*) Only *IL* loans in the 2nd period.	*ILI* Emotions absent No Private Signal No Public Signal	*ILP* Shame No Private Signal Public Signal s

- Main Findings:
  - a JLP contract increases effort by almost 100% relative to an ILP contract.
  - a ILP contract increases effort by almost 60% relative to an ILI contract.
  - Under public repayment, effort levels are comparable under IL and JL contracts
  - effort in JLP less than effor in JLI

- My comments focus on the two "shame trumps guilt" results

Comment 1: Shame trumps guilt – ILP VS JLP

Table 7: First-period Effort - Treatr

Dep Var	
Model No.	1
ILP	2.26***
	(0.25)
JLI	3.72***
	(0.48)
JLP	2.24***
	(0.25)
Age	
Education	
Marital Status	
Liability Type	
No of Loans	
Control Group	ILI
Mean	3.76***
	(0.25)

Notes: OLS regressions. Cluster-Robust standard errors in
level. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$. $N = 400$, $R^2 = 0.3$

- Public Repayment - Individual vs Joint Liability
  ILP (Shame) VS JLP (Guilt + Shame)

- the effort distributions in the two treatments are remarkably similar. Both effort distributions are highly concentrated between 5 and 7.

- Similar coefficients

- Shame = Guilt + Shame

- "shame-aversion motive, on its own, arising through public repayment can be effective in disciplining borrowers' behavior."

Comment 1: Shame trumps guilt – ILP VS JLP

- Public Repayment - Individual vs Joint Liability
  ILP (Shame) VS JLP (Guilt + Shame)

- Are the results driven by "Shame" vs "Guilt + Shame" (effect from combine two dis-utility functions)

- or ?

- By the fact that private signal is largely influenced by public signal. (Public signal? Or the similarity between public signal and private signal?)

- Does not affect the conclusion. But important to understand the mechanism.

- For example, when the private signals are determined mostly by other factors (culture, etc), will we still observe the same results?

Comment 1: Shame trumps guilt – ILP VS JLP

- Another experiment ?

- Probably not

- Split sample into different groups, according to the difference between private signal and public signal.

- Analyze groups where private signal are significantly different from public signal.

Comment 2: Shame trumps guilt – JLP vs JLI

Table 7: First-period Effe

Dep Var	effort
Model No.	3
ILP	
JLI	
JLP	−1.48***
	(0.26)
Age	
Education	
Marital Status	
Liability Type	
No of Loans	
Control Group	*JLI*
Mean	7.48***
	(0.36)

- Individual Liability: Private vs Public Repayment
  JLP(Guilt + Shame) vs JLI (Guilt)

- negative coefficient

- Guilt > Guilt + Shame

- "...The average private signal in JLI is 6.67, which is higher than the public signal in JLP. If instead, we had signal > private signal then it is possible that we could have observed a higher effort level in JLP"

Comment 2: Shame trumps guilt − JLP vs JLI

Table 8: Contracts

Dep Var	n JLI & JLP	
Model No.	3	4
Public	−0.59	
	(1.02)	
Signal	0.32***	0.35***
	(0.07)	(0.07)
FOB	0.38***	0.41***
	(0.09)	(0.08)
SignalPub	−0.28**	−0.32***
	(0.09)	(0.09)
FOBPub	0.26*	0.21**
	(0.14)	(0.09)
Constant	2.78***	2.42***
	(0.73)	(0.52)
R^2	0.52	0.52
AIC	704.70	703.25
BIC	724.49	719.74

Notes: OLS regressions. .01; ** $p < 0.05$; * $p < 0.1$.
$N = 200$.

- "...the values of α_4 are $0.28 − 0.32$ respectively, and both are statistically significant. Since α_2 ranges between $0.32 − 0.35$, the effect of private signals on the first-period effort is almost zero in JLP. In comparison with the results from JLI, this shows that the role of guilt aversion is absent in JLP."

- " the partner's expectation plays a more muted role, and shame aversion appears to trump guilt aversion " (in the sense that the guilt aversion channel is silenced)

- The positive relationship between private signal (guilt) and efforts is more pronounced for JLP, compared with JLI.

Comment 2: Shame trumps guilt – JLP vs JLI

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- We do not need $\alpha_2 = 0$ completely for JLP to have the "Shame trumps guilt" result.

- As long as the positive relationship between private signal (guilt) and efforts is more pronounced for JLP, compared with JLI.

- Regress efforts on signal separately for JLP JLI

Comment 3: More on signals (beliefs)

- Signal formation seems to be the key in identifying the mechanism

- more results on beliefs
  - High vs Low signals
  - How private signals are affected by public signals
  - the volatility of signals

Other Comments

- Discuss more on how does the lab results help us understand the field results.

- Some back-of-the-envelope calculation applying to the field experiments (e.g., Giné and Karlan (2014))

Conclusion

- Very interesting paper.

- Theoretically and empirically help us understand the psychological factors that explains effort choices and repayment rates under different microfinance contracts.

- Hope my comments will help with the next version of the paper.