Equity and Incentives in Household Finance

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Abstract

We conduct a field experiment that randomly offers individuals different monthly payment obligations (debt) in exchange for pledging varying shares of their future incomes (equity). Our design identifies selection and treatment effects across both debt and equity dimensions of the experimental offers, allowing us to separately estimate adverse selection, moral hazard, and liquidity effects of income-contingent contracts. Preliminary results suggest adverse selection into contracts with higher income-contingency. We use our results to quantify welfare effects of information asymmetries.

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