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Fachbereich VWL / Department of Economics

EconNewsletter

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OCTOBER 17 – OCTOBER 21, 2022 NEWSLETTER 2022-18

SEMINAR CALENDAR

Environmental and Development Economics

Christian Traeger, University of Oslo:	Wednesday October 19
Uncertain Remedies to Fight Uncertain Consequences:	12:15–13:45
The Case of Solar Geoengineering	R. 0079 (VMP 5)

Microeconomics Seminar

Stefano Fiorin, Bocconi University:	Thursday October 20
How do Borrowers Respond to a Debt Moratorium? Experimental	17:15–18:45
Evidence from Consumer Loans in India	R. 0079 (VMP 5)

ABSTRACTS

Environmental and Development Economics
Christian Traeger, University of Oslo:
Uncertain Remedies to Fight Uncertain Consequences: The Case of Solar Geoengineering

Abstract:
Solar geoengineering can cool our planet and counteract the warming caused by greenhouse gas emissions. Given current emission trajectories, solar geoengineering has the potential to save many human lives, counteract severe consequences for economic production, and save ecosystems and island states. Deterministic integrated assessment models tend to show major benefits from solar geoengineering, but are highly sensitive to the assumed and highly uncertain damages from solar geoengineering itself as well as the effectiveness of cooling the planet. We analyze how uncertainties governing both future climate change [to be added] and solar geoengineering alter the case of applying a sulfur-based sunscreen to our planet.

Microeconomics Seminar
Stefano Fiorin, Bocconi University:
How do Borrowers Respond to a Debt Moratorium? Experimental Evidence from Consumer Loans in India

Abstract:
Debt moratoria that allow borrowers to postpone loan payments are a frequently used tool intended to soften the impact of economic crises. One concern with such policies is that they might give rise to moral hazard by changing borrower beliefs about credit enforcement and the likelihood of future relief. We partner with a large consumer lender in India to issue randomized debt forbearance offers to a nationwide sample of borrowers. In the experiment, borrowers receive identical forbearance offers that are presented either as an act of generosity by the lender or as the result of government regulation. We find that delinquent borrowers who are offered a debt moratorium by their lender are 4 percentage points (6.9 percent) less likely to default on their loan, while forbearance has no effect on repayment if it is granted by the regulator. Borrowers receiving forbearance offers from their lender are also more likely to do future business with the lender: In a follow-up experiment we find that demand for a non-credit product offered by the lender is 10 percentage points higher among customers who were offered repayment flexibility by the lender than among customers who received a moratorium offer presented as an initiative of the regulator. Overall, our results suggest that, rather than generating moral hazard, debt forbearance can improve loan repayment and lead to higher value banking relationships.

ACTIVITIES OF DEPARTMENT MEMBERS

New Publications

- **Funke, M. and A. Wende (2023),** “The US–China Phase One Trade Deal: An Economic Analysis of the Managed Trade Agreement”, *The Canadian Journal of Economics, forthcoming*.
- **Funke, M. and D. Zhong (2023),** “The Political Globalization Trilemma Revisited: An Empirical Assessment Across Countries and Over Time”, *Economics & Politics, forthcoming*.
- **Funke, M., Sun, R. and L. Zhu (2022),** “The Credit Risk of Chinese Households: A Micro-Level Assessment”, *Pacific Economic Review 27, 254-276.*

The next EconNewsletter will be published **on Monday, October 24, 2022.**

Editorial deadline: **Friday, October 21, 2022.**

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