

Inter-temporal Calculative Trust Design to Reduce Collateral Need for Business Credits

Silu Muduli and Shridhar Kumar Dash highlight that credit rationing arising out of informational asymmetry and lack of collateral is a well-recognised economic constraint in credit markets. It focuses on

the dimension of trustworthiness (calculative trust) by designing an inter-temporal incentivised payment structure that will induce economic agents to reveal the private information available about a project or true intentions of paying up the credit that is going to fund the project. The model dynamically estimates the collateral needed by taking into account the truthfulness of the borrower. The simulation result also finds that building trust helps small business owners to significantly reduce the need for collateral.