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Erratum

Erratum to "The economics of lending with joint liability: theory and practice" [J. Devel. Econ. 60 (1999) 195–228]☆

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The publisher regrets that in the above article there were some omissions and errors. These are supplied and corrected below.

1. In subsection 2.2 entitled Moral Hazard:

(i) In page 203, the cost of effort appears as $1/2\gamma p^2$. It should be $1/2(\gamma p^2)$.

(ii) In page 203, the expression for the equilibrium value of p is $\frac{Y^H + \sqrt{(Y^H)^2 - 4\rho\gamma}}{2\gamma}$. For this to be a real number, we must have $(Y^H)^2 - 4\rho\gamma \geq 0$. It is straightforward to check that with perfect information, expected social surplus from the project is $\frac{(Y^H)^2}{2\gamma}$. For it to be efficient to carry out the project, this must exceed the opportunity cost of capital and labor, i.e., $\frac{(Y^H)^2}{2\gamma} > \rho + \bar{u}$ (this condition is stated in page 199 as A1). To ensure that the value of p is real, we must strengthen this assumption by requiring $\frac{(Y^H)^2}{2\gamma} > \max\{2\rho, \rho + \bar{u}\}$.

(iii) In page 204, in the second paragraph the expression $p = p' = (Y^H - r - c)/\gamma - c$ that appears after the sentence "If borrowers take decisions about project-choice non-cooperatively then in the symmetric Nash equilibrium..." should be replaced by $p = p' = (Y^H - r - c)/(\gamma - c)$.

(iv) In page 205, in the right hand side of the incentive constraint of a borrower to choose $\tilde{p}$ and not deviate to p^D given that her partner chooses a level of monitoring a and the agreed upon project choice $\tilde{p}$, the term $-\frac{1}{2}\gamma p^2$ has been printed incorrectly. It should be $-\frac{1}{2}\gamma(p^D)^2$.

2. In subsection 2.3 entitled Costly State Verification:

(i) The constraints $Y^H - r \geq \max\{0, (1-\lambda_L)Y^H\}$ and $Y^H - 2r \geq \max\{0, (1-\lambda_L)Y^H\}$ in pages 207 and 208 should be $Y^H - r \geq (1-\lambda_L)Y^H$ and $Y^H - 2r \geq \max(1-\lambda_L)Y^H$, since $(1-\lambda_L)Y^H$ is always non-negative.

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(ii) In page 207 the equation $\rho \leq p(r-\lambda_{H\gamma})+(1-p)(-\lambda_{L\gamma})$ has been printed incorrectly. It should be $\rho \leq p(r-\lambda_{H}\gamma)+(1-p)(-\lambda_{L}\gamma)$ instead.

(iii) In page 208 the statement that "Audits take place less often under joint liability, so expected audit costs are lower and so is the equilibrium interest rate" in the last paragraph is correct but it is not obvious why this is the case from the paper. Let the equilibrium value of λ under individual liability be denoted λ^{IL} and the equilibrium value of λ under joint liability be denoted λ^{JL}. The proof of this assertion involves showing that $(1-p)\lambda^{IL}>(1-p)^2\lambda^{JL}$ (recall that under joint liability the possibility of an audit arises only when *both* borrowers fail which has probability $(1-p)^2$ while under individual liability the possibility of an audit arises whenever any *individual* borrower fails which has probability $(1-p)$). This readily follows from the expressions for λ^{IL} and λ^{JL} given that earlier we show $\{pY^H-(1-p)\gamma\}>\frac{1}{2}p\{pY^H-2(1-p)\gamma\}$ and $0<p<1$.

3. In subsection 2.4 entitled Enforcement, in page 210 in the sentence right after the equation $u(Y)-u(Y-2r)\leq \bar{B}$, the expression $Y>Y(2r)$ should be replaced by $Y<Y(2r)$.