



STEG-PEDL Virtual Course on 'Private Enterprises, Productivity and Economic Growth'

Session 12: Friday 01 May 2026

[Cynthia Kinnan](#)

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Q: Could this large drop be the result of a thin market? For example, if there is only one firm buying my product and that firm is temporarily unable to operate, then I have no alternative buyer and sales collapse.

A: Yes, Cynthia mentioned this as a possibility. Thin financial markets but also thin product markets.

Well, the immediate reduction is certainly the result of an incomplete financial market, but the propagation through networks could go through both channels. She also mentioned propagation through the labor network, which is a result of a thin labor market presumably.

Q: Also, if labour hire goes down do you see more local/temporary migration out of the area to find work?

A: I am not familiar with this particular paper, so you will have to ask Cynthia this directly. Certainly in other work, e.g., that of Melanie Morten, migration is a way of dealing with negative income shocks.

Q: I wonder whether there is a model that distinguishes high-risk & low-risk outcome. In here, the outcome is simple Y. But this choice itself can be moral-hazard issue.

A: This is part of the classic moral hazard problem, e.g., Holmstrom and Milgrom (1991) has this feature.

Q: Dealing with moral hazard problem. What is the evidence available for small firms?

A: To the extent that households and firms are more or less the same thing in many cases, Dean Karlan's 2009 Econometrica paper is a good one. He ran an RCT, randomly varying interest rates either before or after people apply, and found evidence of moral hazard but it was 15-20% if I recall correctly.

In this Thai context, Paulson, Townsend, and Karaivanov (JPE, 2006) found that moral hazard was dominant. They used a combination of a structural model together with nonparametric regressions.

Q: Please give questions for Cynthia as replies to this message here:

Q1: I think the micro-finance and group-financing are for the people who cannot have access to the formal financial institution. So these presentations are mostly about informal firms, right? Can you tell me about your intuition about the effect of those suggested financial institution on TFP? Do these forms of financial access through the suggested method help the economy as a whole?