

Asymmetric information problem in the rural credit market.

- a. Re-derive all calculations on ex-post and ex-ante moral hazard slides. Make sure that you understand why they are written that way.
- b. Find the *minimum* collateral necessary to align the incentive of the borrower with the lender. (Hint: Compare the payoffs from choosing each project with and without collateral and see the minimum collateral that requires for tilting the borrower's decision to the favorable way. Repeat for the case of cheating/honest.)