

# Financial Mathematics/Engineering Seminar Series

## Angry Borrowers: Negative Reciprocity in a Financial Market

**Prof. Jun Yang, Indiana University, USA**

### Abstract

Reciprocity is believed to play an important role in a variety of key areas in economics. However, most research on this topic is experimental, perhaps due to the difficulty in measuring reciprocity in the field. This paper provides the first direct evidence on reciprocity in a real financial market. We examine the consequences of an intrusive debt-collection tactic that targets delinquent borrowers' social circles in a consumer-lending setting. The practice emerged recently in developing economies, and some U.S. lenders have used it as well. Our identification strategy relies on the fact that debt-collection agents typically had an excessive workload and could not work on all of their assigned loans before calling it a day. Around the "stopping time," whether a loan was worked on (treated) depended on random factors that determined collection agents' schedules. Our estimation shows that this intrusive debt-collection tactic backfired and increased the default rate by 5.9 to 14.3 percentage points. Borrowers appeared to be angered by the unexpected intrusion to their social circles and retaliated by defaulting on their loans even though they might have been able to repay. This effect is stronger for male borrowers and for borrowers with access to alternative financing sources. It is concentrated in the early period when this collection practice was emerging and likely unexpected.

### About the speaker

Prof. Jun Yang is a Director of the Institute for Corporate Governance and Associate Professor of Finance at Kelley School of Business, Indiana University. Her research focuses on corporate finance, corporate governance, executive compensation, and FinTech.

Jun's work on opportunistic managerial behavior in compensation peer benchmarking practice was published by the Journal of Financial Economics (JFE) and Review of Financial Studies. Jun's current research investigates opportunistic managerial behavior related to executive pensions and various factors that may affect the nature of director independence (e.g., collusive trading between independent directors and the CEO, and corporate charitable donations to independent-director-affiliated charities).

Winning numerous research awards, Jun's work was featured by The Wall Street Journal, New York Times, The Washington Post, Bloomberg, Harvard Law School Forum, and Slate. Jun received her Ph.D. in Finance from Washington University in Saint Louis, and her Master's and Bachelor's degrees from Tsinghua University (summa cum laude).

### Date

26 February 2021 (Friday)

### Time

11am – 12noon (HK Time)

### Zoom

<https://polyu.hk/FnIOS>

