THE ECONOMICS OF ROTATING SAVINGS AND
COLLATERAL ASSOCIATIONS

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This paper modifies the mechanism of the Rotating Savings and Credit Association (ROSCA), and provides a possible theoretical interpretation of a mutual-guarantee association that here we call Rotating Savings and Collateral Association (ROSCoA). Through a very simple case of moral hazard, the paper first shows that each ROSCoA member has the opportunity, in expected terms, to become an entrepreneur just with a contribution equal to the $n$th fraction of the individual collateral asked by a bank. Besides, the paper shows under what conditions a potential entrepreneur may prefer to join either a ROSCA or a ROSCoA.

Keywords: collateral, moral hazard, mutual credit

JEL Classification numbers: D81, D82, H53