

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

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