Optimal Credit Scores Under Adverse Selection
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Motivation
- Better data, better outcomes in financial markets?
- If adverse selection is a major concern, not necessarily!
- How can data sharing be designed to benefit all potential borrowers?
- Selective disclosure credit scores

Empirical application
- Rural credit markets in Thailand. Thin formal segment. Extensive data from Townsend Thai Project.
- BAAC interest rate rules updates ⇒ source of exogenous variation in interest rates
- Wager and Athey (2018) causal forests ⇒ joint distribution of values and signals
- Full disclosure to the optimal policy: gains $3 per household per month

Model
- Platform
- Lending contracts
- Signals
- Messages

Theoretical results
- Optimal disclosure policy ⇒ three rules-of-thumb
  1. Markets with higher prices should have higher price elasticities of the expected value for investors
  2. When signals are combined, the signal with the high full disclosure price has a low elasticity
  3. Each message should combine one or two signals

BAAC Interest rate structure for farmers

Optimal policy vs full disclosure

Price elasticities of the expected value for investors