

# Discussion of “Payments and privacy in the digital economy” by Toni Ahnert, Peter Hoffmann, Cyril Monnet

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# Model Summary

- ▶ Borrowers compete for loans to produce Low and High quality goods.
- ▶ Digital payments facilitate more efficient online commerce but expose firm's data to lenders
- ▶ Cash offers anonymity, but restricts less efficient offline venues
- ▶ Firms face trade-off: efficient online trade vs maintaining privacy

# Which information do I want to keep private?

Model:

- ▶ *High quality*, because firms want to pool with low quality firms

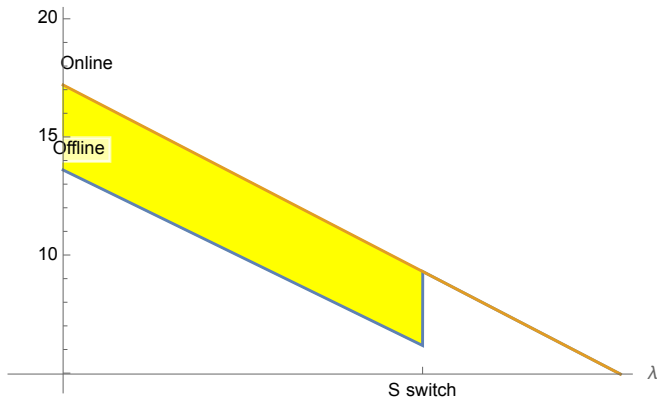
Rationale:

- ▶ Monopolistic Lender skims all rents
- ▶ No (exogenous) credit risk but moral hazard
- ▶ Role of bank?
- ▶ Creating information from deposits harms economy?

# Can't bank do better?

- ▶ Sellers decision to go offline not only decreases welfare but also

## Bank Profits



## Can't bank do better?

- ▶ As long as Online selling is more profitable, there is a rent to share:

$$L^D > L^D(x) > \max[L_F^S, L_F^P]$$

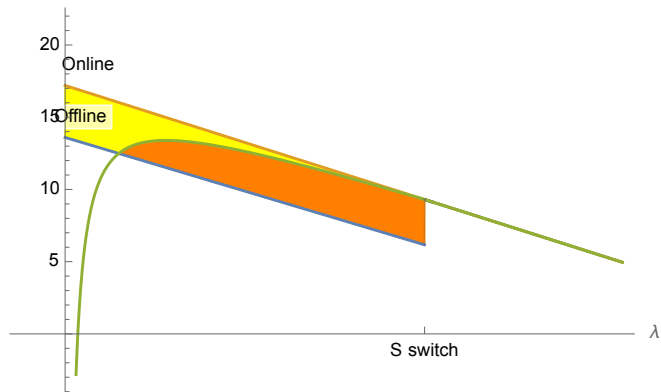
- ▶ Anticipating offline choice, bank better off by adapting its contract menu such that seller is indifferent

$$S_O^D(x) = q\lambda(p_H + x) + \lambda(1 - q)p_L = S_F^S$$

$$x = \theta - p_H - \alpha(1 - p_L) + \frac{\alpha}{\lambda}(p_H - p_L)$$

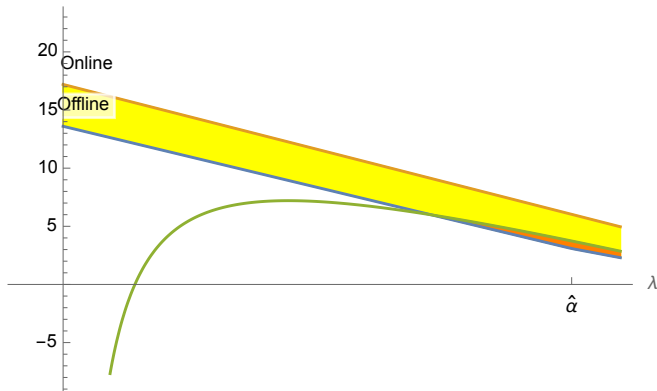
# Can't bank do better?

## Bank Profits



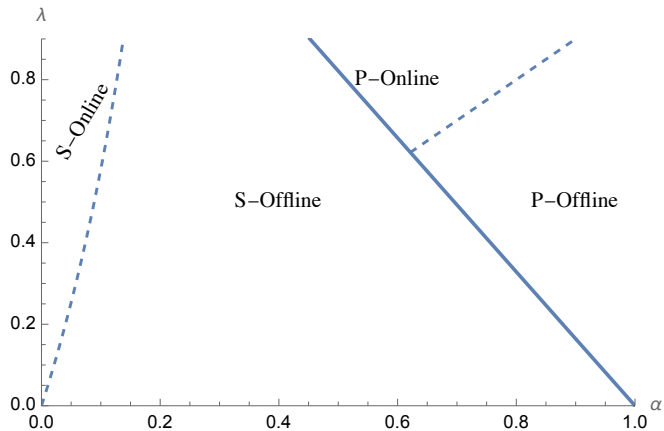
# Bank cannot do better for high Offline efficiency

## Bank Profits

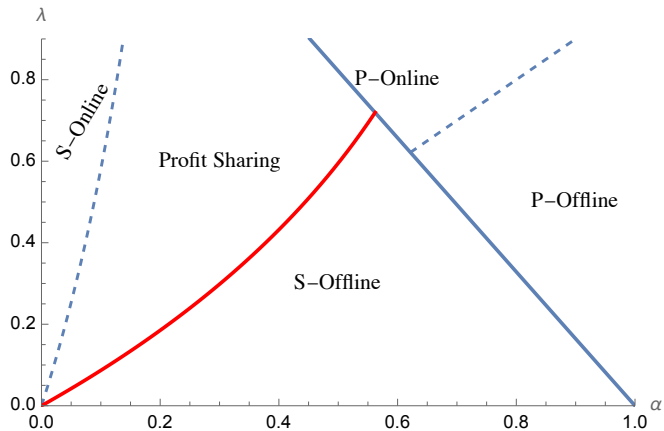




# Contract Space



# Contract Space



## Alternative implementation: Rent to share

- ▶ Loan Caveats: Purpose restrictions could require firms to go online, with incentive to split the benefit
- ▶ E-business Platform Lending: platforms such as Alibaba, Jingdong Mall, and Amazon, provide lending services to SMEs selling products on them

# Economic Relevance

Elephant: Is preference for Cash by small firms driven by high quality firms attracting better bank loan conditions?

- ▶ Tax Evasion
- ▶ Money Laundry
- ▶ Where does the Cash go? (if not in deposits)

# Take away

- ▶ Valuable contribution to a critical discussion
- ▶ Insightful and surprising counterintuitive effects
- ▶ Try to highlight the economic relevance of the findings