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### **Group Lending Model under Sequential Moves**

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Abstract:

Group lending often involves active peer monitoring, which is expected to mitigate ex-ante moral hazard with respect to borrowers' diligence or working effort. However, the borrowers may collude on the *decision to monitor* by not monitoring at all, and hence save the cost of monitoring and obtain the nonmonitored private benefits.

This paper compares simultaneous and sequential group lending in terms of their ability to encourage borrowers' monitoring effort. The results of this study show that in contrast to simultaneous lending, the leader member in sequential lending chooses higher working and monitoring effort levels, whereas the follower member in sequential lending chooses lower working and monitoring effort levels. Furthermore, we find that, in the sequential lending model, the repayment rate, and hence the repayment revenues to the lender, is higher than that in the simultaneous lending model.

Keywords: Group Lending, Sequential Moves

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