

ABSTRACT

We develop two models of corruption and delay in this thesis. Both the models are dynamic games of asymmetric information between a corrupt official disbursing subsidized credit in a rural set-up, and a farmer who has private information about his productivity. The government credit scheme provides for a repeat loan, so that the farmer has an incentive to repay. In the first model, we take a case of extortionary corruption, where the corrupt official) who derives utility out of monetary bribes and leisure, has a free hand in subjecting the farmer to delay (equivalent to leisure for the official) and extracting a bribe from him. We show that such unchecked corruption combined with asymmetric information will result in a greater probability of default as compared to the no-corruption case. In the second chapter, we model a case of benign corruption. The official in such a set-up is stuck with some amount of 'paperwork', which could be created by the government for several reasons. In such a case, the farmer has an incentive to bribe the official for speedier disbursement. We show that such bribe giving will result in a greater probability of repayment as compared to the no corruption case.