

Trust and Property Rights in Financial Market

Koji Asano *

April 18, 2016

Abstract

This paper studies coevolution of trust and property rights in financial markets. When investors make financing decisions, they contemplate how trusting borrowers are and how valuable their collateral is. We show that the high level of trust demands for strong property rights and the legal protection of property rights, in turn, creates a high-trust economy. The complementarity leads to multiple equilibria: a high-trust equilibrium with strong property rights, a high level of financial development, and high aggregate output; a low-trust equilibrium with weak property rights, a low level of financial development, and low aggregate output.

JEL Classification: D14, G1, O16.

Keywords: trust, property rights.

*Graduate School of Economics, Osaka University, 1-7 Machikaneyama, Toyonaka, Osaka 560-0043, Japan.
E-mail: ngeoozak@student.econ.osaka-u.ac.jp