

Kapounek, Svatopluk; Kočenda, Evžen; Kouba, Luděk

Working Paper

Financial impact of trust and institutional quality around the world

IES Working Paper, No. 28/2022

Provided in Cooperation with:

Charles University, Institute of Economic Studies (IES)

Suggested Citation: Kapounek, Svatopluk; Kočenda, Evžen; Kouba, Luděk (2022) : Financial impact of trust and institutional quality around the world, IES Working Paper, No. 28/2022, Charles University in Prague, Institute of Economic Studies (IES), Prague

This Version is available at:

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INSTITUTE
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Faculty of Social Sciences
Charles University

FINANCIAL IMPACT OF TRUST AND INSTITUTIONAL QUALITY AROUND THE WORLD

Svatopluk Kapounek
Evžen Kočenda
Luděk Kouba

IES Working Paper 28/2022

Institute of Economic Studies,
Faculty of Social Sciences,
Charles University in Prague

[UK FSV – IES]

Opletalova 26
CZ-110 00, Prague
E-mail : ies@fsv.cuni.cz
<http://ies.fsv.cuni.cz>

Institut ekonomických studií
Fakulta sociálních věd
Univerzita Karlova v Praze

Opletalova 26
110 00 Praha 1

E-mail : ies@fsv.cuni.cz
<http://ies.fsv.cuni.cz>

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Bibliographic information:

Kapounek S., Kočenda E., Kouba L. (2022): "Financial Impact of Trust and Institutional Quality around the World" IES Working Papers 28/2022. IES FSV. Charles University.

This paper can be downloaded at: <http://ies.fsv.cuni.cz>

Financial Impact of Trust and Institutional Quality around the World

Svatopluk Kapounek^a

Evžen Kočenda^b

Luděk Kouba^a

^aMendel University in Brno, Faculty of Business and Economics, Czech Republic;

Email: kapounek@mendelu.cz, kouba@mendelu.cz

^bCharles University, Institute of Economic Studies & Institute of Information Theory and Automation, Czech Academy of Sciences, Prague, Czech Republic;

CESifo, Munich, Germany; IOS, Regensburg, Germany.

Email: evzen.kocenda@fsv.cuni.cz

December 2022

Abstract:

We investigate the financial impact of social trust, institutional quality, and regulations. As a testing ground we employ a unique, large, and hand-crafted dataset of more than 850 000 lending-based crowdfunding projects from 155 platforms across 55 countries during 2005–2018. We show that the impact of social trust is positive but economically less pronounced than that of institutional trust proxied by legal and property rights protection and regulation. Moreover, the financial impact of social trust is greater at the national level, while impact of institutional quality dominates at the international level. Nevertheless, the financial impact of trust and institutional quality around the world is positive, which is an encouraging implication under increasing anonymity and internationalization of financial environment.

JEL: A13, D23, G41, K11

Keywords: social capital, social trust, institutional trust, uncertainty, crowdfunding, financial markets

Acknowledgements: We are grateful for helpful comments we received from Iftekhar Hasan, George Kouretas, Raoul Minetti, Wouter Torsin, Lei Zhao, and participants at several presentations. The usual disclaimer applies.

1. Introduction

The impact of social capital and trust on individual financial decisions can be linked to existing risk and disproportionately higher aversion to losses over gains, which are rooted in human nature (Kahneman and Tversky, 1979). In line with this theoretical perspective, we acknowledge that trust involves an unknown degree of risk, as the concept of social trust is characterized by everyday interactions among people who do not know each other (Bergh and Bjørnskov, 2011; Rothstein, 2011; Bjørnskov and Svendsen, 2013). Nevertheless, trust is often hypothesized to help facilitate cooperation and decrease transaction costs in various activities, including those related to the financial and capital markets (Guiso et al., 2004 and 2008). This is highly relevant for our analysis because modern market economies, along with their financial and capital markets, are essentially based on impersonal or depersonalized exchange between parties who do not know each other and will probably never meet (Arrow, 1972; North, 1990; Algan and Cahuc, 2010). The level of depersonalization has further deepened with globalization and the boom of the sharing economy (Bergh and Funcke, 2020). Such development further accentuates the growing importance of trust with respect to (i) unknown market participants, as well as to (ii) formal institutions that guarantee enforcement of contracts and rule of law. Our goal is to empirically quantify the impact of social trust and institutional trust (formal institutions) on financial activities among anonymous people and to capture it at international level.

In order to reliably quantify the financial impact of trust, sufficiently large and representative data is imperative. For this, we assembled a large dataset on crowdfunding projects, as this type of online credit environment provides data with high granularity and is well suited to test the effects of trust. We believe that volume, type, motivation, and country-level differences provide high variance in such data that can be also linked to differences in levels of social trust and quality of formal institutions.

Despite of their high information potential, the use of international crowdfunding data is still fragmented as we show in Section 2. We remedy this by assembling a unique, large, and hand-crafted dataset based on crowdfunding projects around the world. Based on information from the Crowdsurfer database (Crowdsurfer Ltd, U.K.), we assemble data on more than 850 000 projects from 155 platforms across 55 countries during 2005–2018. We also distinguish between multi-national and domestic platforms, excluding foreign borrowers. Finally, we complement the crowdfunding data with indicators of trust, institutional quality, and several important economic controls. This way, we are able to assess hypothesized (potentially)

financial impacts of trust and institutional quality at national and international levels. We employ logistic regression to address the effects of social trust, legal and property rights protection, and platform regulation on lending-based project funding. We also control for project goals, debt interest rates, risk related to the creditworthiness of borrowers, and overall economic development.

We contribute to the literature by analyzing the financial effects of social trust and institutional quality with respect to different motivations that are proxied by profit-oriented forms of crowdfunding. In doing so, we also account for differences in the activities of domestic and multi-national platforms. To the best of our knowledge, there is no cross-country analysis that has explored the potential of multi-country crowdfunding data with respect to the nexus between trust, institutional quality, and their financial impact. Our key results can be summarized as follows. First, the effects of social trust on the success of lending-crowdfunding projects are positive but smaller compared to the effects of institutional quality. Second, the financial impact of social trust is greater at the national level, while the impact of institutional trust dominates at the international level. We conjecture that the higher impact of institutional quality than that of social trust should be credited to the anonymity of interacting parties who might consider legal and property rights protection a safeguard against misconduct. Thus, formal institutions likely take up the role of the social trust that might exhibit difficulty to materialize in an anonymous environment.

The rest of the paper is organized as follows. Section 2 introduces the concepts of social trust and hypothesis development. Furthermore, we review relevant literature and introduce types and determinants of crowdfunding. In Section 3, a detailed overview of methods and data is provided. Sections 4 and 5 present and discuss the results of the regression analyses. Section 6 concludes.

2. Related literature and hypothesis development

2.1 Social trust and institutional quality

Trust is a key dimension of social capital (Coleman, 1990; Putnam, 1993; Knack and Keefer, 1997) and one can identify three distinct concepts of trust in the literature. Confidence in people we know and confidence that is based on our individual experiences produces a so called (i) *thick* (Williams, 1988; Newton, 1997; Roth, 2009) or *strategic* trust (Uslaner, 2002) and prevails in societies where people live in small communities with rare contacts with strangers. Trust in government and parliament or confidence in courts, evidenced from public-opinion

polls, is called (ii) *systemic* or *institutional* trust (Roth, 2009; OECD, 2017). Modern societies are based on everyday interactions among people who do not know each other with materialization of (iii) *interpersonal* trust (Zak and Knack, 2001; Roth, 2009), *generalized* trust (Uslaner, 2002; Roth, 2009; Algan and Cahuc, 2010), *moralized* trust (Uslaner, 2002) or *social* trust (Bergh and Bjørnskov, 2011; Rothstein, 2011; Bjørnskov and Svendsen, 2013). Contemporary research on the economic and financial impacts of trust typically deals with the third type of trust, which facilitates cooperation, decreases transaction costs, and enables improved exchanges in modern market societies. We use the *social* trust (third type) in our analysis, and the *institutional* trust (second type) as a proxy for an institutional quality (legal and property rights). Finally, in sociology, researchers distinguish between bonding and bridging social capital (Putnam, 2000; Patulny and Svendsen, 2007). The bonding capital is based on the concept of a thin trust (first type), while the bridging capital is linked to the social trust (third type). In this respect, the notion of bridging capital (being based on the construct of social trust) is a relevant concept to help rationalize findings from domestic and international platforms.

Kahneman and Tversky (1979) accentuate the impact of social capital and trust on individual financial decisions but the financial impact of trust remained surprisingly under-researched for some time. However, despite that trust have been somewhat overlooked in finance (Olsen, 2012), over the last 20 years, it has become increasingly popular in finance literature (Lins et al., 2017).

To identify the effects of social capital and trust on financial development, Guiso et al. (2004) empirically confirm the pioneering ideas of Banfield (1958) and Putnam (1993) using microeconomic data across Italian regions. Their findings indicate that higher trust levels imply higher private investments in stock and better access to institutional credits for households and firms. In addition, the financial impact of trust is greater among the less educated and when legal enforcement is weak. The latter idea is further developed by Guiso et al. (2008), who addresses the importance of trust in stock markets. Less-trusting investors are less likely to buy stocks, and individual attitudes matter, particularly among people unfamiliar with the stock markets. Similarly, Olsen (2012) argues that without trust, financial markets would collapse since transaction costs are too high when market participants become untrustworthy.

In another stream, Hasan et al. (2017a), Lins et al. (2017), and Meng and Yin (2019) demonstrate the effects of social capital and trust on corporate finance. Using a broad range of proxies for social capital, including organ donation, Hasan et al. (2017a) show that firms headquartered in U.S. counties with higher levels of social capital incur lower bank-loan

spreads. Similarly, Meng and Yin (2019) confirm that firms in countries with higher levels of social trust have lower bond-yield spreads. In addition, this effect is stronger in countries with weaker formal institutions. Lins et al. (2017) demonstrate the effects of social capital and trust on corporate finance during the 2008–2009 financial crisis. By employing corporate social responsibility (CSR) activities as a proxy, they show that firms with high levels of social capital and trust experienced not only higher stock returns but also higher profitability and sales per employee. Finally, Hasan et al. (2017b) found a strong negative link between social capital and tax avoidance, as firms with headquarters located in U.S. counties with high social capital show lower corporate tax avoidance.

Trust in banks or the banking sector is also analyzed in the literature (e.g. van Esterik-Plasmeijer and van Raaij, 2017; Fungáčová et al., 2019). However, these studies are based on alternative concepts of institutional trust, whereas the use of social trust is rare in this area and in research. Further, Berggren et al. (2014) focus on the link between social trust and central-bank independence. Jin et al. (2020) explore the implications of the U.S. county-level social trust of banks' funding structure. Other authors (Jiang and Lim, 2018; Meng and Yin, 2019) study the relationship between social trust and debt issues.

In addition, we follow the discussion on the conditional effects of social attitudes on dependence on institutional quality (Svallfors, 2012; Pitlik and Kouba, 2015). Is a high trust level a necessary precondition for crowdfunding development? For instance, Bergh and Funcke (2020) empirically question the popular notion that the sharing economy depends on high levels of social trust. Hence, can high-quality formal institutions substitute insufficient trust? According to North (1990), we understand formal institutions as rules of the game in society. Analyzing the new and anonymous environment of crowdfunding platforms and projects (next section), we identify institutional quality with the general rule of law, security of property rights and enforcement of contracts in a country.

2.2 Crowdfunding

Crowdfunding is a modern method of raising capital via online platforms, typically in small amounts and from large groups of people.¹ This type of social and financial interaction usually involves three types of ingredients: (i) Entrepreneurs or crowd funders that are initiators of projects to be funded and (ii) individual investors or backers that provide financial sources.

¹ For a survey on 17 definitions on crowdfunding, see Hossein and Oparaocha (2017).

Both subjects cooperate using (iii) an intermediary site called a crowdfunding platform. The basic idea of a fundraising campaign is to convince enough people to support the project to reach a target volume of money. Depending on the character of a project, individual backers can provide money in the form of a donation or loan or with the prospect of a future reward or future voting rights. Consequently, four basic types of crowdfunding are commonly distinguished. Lending and equity crowdfunding are chiefly motivated by seeking potential financial profit in terms of interest payments or dividends.² Reward and donation crowdfunding are motivated mainly by a human desire to support and feelings of satisfaction.

Crowdfunding became well known via campaigns by music bands and artists that were based on donations and (symbolic) rewards. Now, the most widespread form is lending crowdfunding (fundly.com, 2021), which represents an alternative for small entrepreneurs that are unable to acquire a traditional bank loan. However, an applicant still needs to prove their creditworthiness.

Existing empirical literature on the link between social trust and crowdfunding outcomes is limited, but the standard assumption is that the impact of trust on various types of crowdfunding projects is positive. These studies analyze the issue at a micro level, using data from one or more platforms. For instance, Hasan et al. (2020, 2021) employed data from a large lending platform in China and documented the positive effects of social capital and trust on funding success. Especially Hasan et al. (2020) show that high social capital reduces risk of default, interest rates and project failure. Zhao et al. (2017) compare the effects of trust, perceived risk, and commitment on backers' funding intentions based on data from a reward-based platform in Taiwan. Nevertheless, the estimated effects of trust are small and not statistically significant. Shneor et al. (2021) show how cultural differences in social trust affect campaign designs and success in crowdfunding based on data from a leading platform in Finland (a high-trust society) and Poland (a low-trust society). They conclude that campaign design should accommodate the trust conditions in which a campaign is launched: Campaigns in low-trust societies should be more comprehensive, aiming at attitude change. However, an adequate quantification of the financial impact of trust at the cross-country level has not been possible, chiefly due to the shortage of reliable data. We contribute to this stream of literature and formulate our first hypothesis.

- **H1:** A higher level of social trust positively affects the success of crowdfunding projects.

² Lending crowdfunding is also called peer-to-peer lending, P2P, debt-based, marketplace lending, loan crowdfunding.

Moysidou and Hausberg (2020) adopted an opposite approach. They developed a model to explain what factors lead to crowdfunders' trust in a project and tested it on data from a German lending platform. Their results indicate that trust in a platform and information quality are more important factors of a project than the project initiator. The above-cited papers focus on individual investors' motivation or campaign performance at the micro level. To the best of our knowledge, Rau (2020) is the only author who conducted a cross-country survey on trust, regulation, and crowdfunding volumes across a large number of domestic platforms. The interest and constraint to analyze domestic platforms is grounded in the primary curiosity to assess how the introduction of explicit legal regulations affect financial innovation (online crowdfunding) in a specific country. The findings show that regulatory clarity as well as general rule of law appear to positively affect crowdfunding; on the contrary, social factors, such as trust, do not appear to matter, with the exception of the poorest countries. Following Rau (2020), we formulate our second hypothesis to explore whether trust exhibits financial impact and whether its lack can be substituted with the quality of institutions.

- **H2:** A higher level of institutional quality (rule of law) and the existence of a specific regulatory framework on crowdfunding platforms positively affects the success of crowdfunding projects.

Moreover, we contribute to the limited evidence on the financial impact of trust with the quantitative assessment of a large dataset, which allows us to differentiate between domestic and multi-national platforms. We hypothesize that domestic lenders might be more inclined towards trust in a well-known, domestic environment, while foreign investors are more likely affected by the rule of law in the country where the platform is located.

- **H3:** The financial impact of social trust, institutional quality (rule of law) and crowdfunding regulations differs between domestic versus multi-national platforms.

3. Data and methods

Our unique dataset includes 855,736 lending-based crowdfunding projects (campaigns) from 55 countries launched on 155 platforms registered in 22 countries in 2005–2017. We cover all crowdfunding projects registered on the Crowdsurfer database (Crowdsurfer Ltd, U.K.). From the data, we identified the amount specified by the borrower as the project's goal when it was launched, and the total amount raised by the end of campaign. The ratio of the two variables (amount raised/goal) constitutes our dependent variable. We control for interest rate offered (and paid) by the borrower for each lending-based project and project-risk category. The

project-risk category represents the standardized debt-risk category specified by each platform on the basis of the payment history of the borrower (project initiator).

We present several descriptive statistics on the lending-based projects that we cover in our unique dataset. Figure A1 shows that 77% of all projects are presented on lending-based platforms in the U.S. Therefore, in our analysis we also control for social trust in individual U.S. states to account for their differences in various socio-economic characteristics (Figure A2). Figure A2 shows that 40% of projects are presented on nationwide platforms where we control for trust within the U.S.

However, most of the projects (where we identified state-specific platforms) are launched on lending-based platforms in California (11.8%). Minor parts are presented on platforms in Florida (6.6%), New York (5.4%), Washington (3.8%), and Illinois (3.5%). The remaining projects are presented on platforms located in 45 remaining U.S. states (with shares below 3%). In order to account for the distribution of the projects across U.S. platforms, we later provide additional robustness checks confirming validity of our main results without the US impact removed from the main sample. Outside the U.S., most projects are offered on platforms from the U.K. (15%), China (7%), and Germany (1.3%).

Figure A3 shows the geographical distribution of borrowers (project owners). Most of the borrowers are identified in the U.S. (76.2%), the U.K. (14%), China (7%), and Germany (1.3%). The geographical distribution of borrowers is similar to that of platforms, but there is significant share of multi-national platforms (our dataset covers crowdfunding projects from 55 countries that are presented on platforms in 22 countries). Therefore, we differentiate between domestic and multi-national platforms, especially due to language barriers and legal restrictions. Thus, in line with Rau (2020), we exclude international borrowers and identify domestic platforms as platforms where all borrowers are all from the country in which the platform is located. On the contrary, we understand multi-national platforms, as these are where both domestic and foreign borrowers present their projects.

We also control for the project size represented by the project goal. The project goal is specified by the borrowers before the project is launched on the platform. Therefore, we do not only use quartiles, but also emotional ranges given with 5,000 USD thresholds, which are identified by the project-size distribution presented in Figure A4. In Appendix Table A1, we present basic project categories and main differences. It shows that higher debt interest rate is offered in the category “Food & Staples Retailing” (16%) and “Software & Services” (15%). The riskiest categories are “Transportation” and “Food & Staples Retailing.”

The levels of social trust were obtained from the World Values Survey (WVS) and the European Values Study (EVS) databases. The related survey question is formulated as "Generally speaking, would you say that most people can be trusted or that you need to be very careful when dealing with people?" The two response categories are "most people can be trusted" and "can't be too careful". The answer that "most people can be trusted" is otherwise assigned value "1" and "0". We cover WVS Wave 5 (2005–2007) and Wave 6 (2010–2014), and EVS Wave 3 (2008) and calculate the country-level mean score of trust for observations within each country.³

To measure institutional quality (rule of law), we use the Index of Legal Systems & Property Rights from the Fraser Institute as a proxy. It is an important element of economic freedom and measures rule of law, security of property rights, an independent and unbiased judiciary, and impartial and effective enforcement of the law. The index includes the following ten areas: (1) Judicial independence, (2) impartial courts, (3) protection of property rights, (4) military interference in rule of law and politics, (5) integrity of the legal system, (6) legal enforcement of contracts, (7) regulatory costs of the sale of real property, (8) reliability of police, (9) business costs of crime, and (10) gender disparity adjustment.

Moreover, we manually collected information about the existence of a specific regulatory framework on crowdfunding activities at a country level. We differentiate between non-existent, basic, and advanced regulatory arrangements on crowdfunding platforms in each country. A basic regulatory framework includes specific legislative regulation on crowdfunding that eliminates essential legal and regulatory obstacles for its development. An advanced regulatory framework is characterized by the existence of elaborated specific legislative regulation, including the licensing of platforms and protection of investors. Finally, we employ GDP per capita in PPP provided by the International Financial Statistics of the International Monetary Fund (IMF) as a macroeconomic control for economic development.

Appendix Table A2 provides descriptive statistics on the regressors, and Appendix Table A3 presents a cross-correlation matrix that indicates expected negative correlation between trust and the levels of institutions (Guiso et al., 2004) as well as the specific regulation of platforms.

³ Country trust levels are typically very stable over time (Algan and Cahuc, 2010; Bjørnskov and Svendsen, 2013; Bergh and Funcke, 2020). It is based on a long-term research in psychology showing that trust with respect to unknown people is formed in early childhood and remains relatively stable for the rest of one's life (Katz and Rotter, 1969; Bergh and Bjørnskov, 2011). Moreover, children follow codes of behaviour of their parents and aggregate trust levels are likely to remain stable across time (Tabellini, 2008; Bergh and Bjørnskov, 2011).

We build on the approach of Hasan et al. (2020, 2021), who analyzed impact of social trust and stereotypes in crowdfunding lending. We employed binary generalized linear logistic regressions to investigate the effects of social trust, legal and property rights protection, and platform regulation on the probability (P) of successfully funding lending-based project i ($FundingSuccess_i$):

$$\begin{aligned}
P_i(FundingSuccess_i = \gamma) &= F\gamma \left(\beta_1 Trust_c + \beta_2 PropertyRights_c + \beta_3 Regulation_c \right. \\
&+ \sum_{f=1}^F \beta_f Project_i^f + \sum_{m=1}^M \beta_m Macro_c^m + CountryPlatform_c \\
&\left. + ProjectCategory_i + \theta_t + \varepsilon_i \right), \tag{1}
\end{aligned}$$

where i denotes a specific project launched in year t and country c where the platform operates. In quantitative terms, funding success ($FundingSuccess_i$) represents a project that reaches 100% of the funding goal or more (Hasan et al., 2020, 2021; Cumming et al., 2020). The independent variables account for social trust ($Trust_c$), quantified from the WVS/EVS survey-response rates in the selected country (or U.S. state), quality of institutions proxied with the Index of Legal Systems & Property Rights ($PropertyRights_c$), and specific regulatory framework on crowdfunding platforms ($Regulation_c$) in country c , where c denotes specific country conditions in year t .

We also control for selected project characteristics ($Project_i$) that capture differences in project goals, debt interest rates and risk categories,⁴ and macroeconomic conditions ($Macro_c$) in country c (GDP per capita in PPP). Moreover, we include platform-country-specific dummies, denoted by $CountryPlatform_c$, and project-category dummies, denoted by $ProjectCategory_i$ (see category details in Appendix Table A1). In addition, we control for changing crowdfunding market conditions (especially popularity) using yearly-time dummies θ_t .

We run generalized linear logistic regression that allows for the non-normal distribution of our response variable. The results are presented as marginal effects of logit regressions and

⁴ The risk category of the project represents standardized debt-risk categories based on platform information about the project owner's (borrower's) creditworthiness.

present marginal changes in the probability of funding success. Moreover, all regressors are considered strictly exogenous. Thus, we suppose that crowdfunding activities cannot affect aggregate economic activity, social trust, and the quality of the institutional environment in the countries. We also believe that the goal of a project is strictly exogenous because it is fixed before the auction is launched and presented on the platform.

4. Results

We present results from our baseline estimation in Table 1 where we show the effects of social trust on lending crowdfunding projects; here, we also account for whether these effects change when we control for the quality of formal institutions, project specifics, and the macroeconomic environment. In Table 1, we report the marginal effects of our baseline logistic regressions (using an GLM estimator) and show that the coefficients of social trust are positive and statistically significant in all regression specifications. The key message of our results is that greater social trust in a country increases the probability of lending-based project funding. This finding is in support of the hypothesis (H1) that states that a higher level of social trust positively impacts the success of crowdfunding projects. Importantly, our finding is in accord with the positive effects of trust being observed at stock markets and other types of credit markets (Guiso et al., 2004; Guiso et al., 2008; Hasan et al., 2017a; Meng and Yin, 2019). However, we must note that the economic significance of trust is reasonably high only in the baseline specification (columns 1 and 2 in Table 1) and substantially decreases when other controls are added.

More detailed findings are grounded in the set of specifications that are modified based on the first model, which includes social trust, a constant (not reported), and yearly dummies. The second regression is extended with dummies related to a project category and the country where a platform operates. In the third extension, we control for project specifics, namely project goal and debt interest rate. The impact of such specific features on project success is a matter of a broad discussion in the literature; yet empirical results are rather ambiguous. For instance, investors can consider the borrowed amount a risk factor or credit cue (Cai et al., 2016). In this respect, we find negative effect of the project goal (Cordova et al., 2015; Kuppuswamy and Bayus, 2017). We also identify a negative effect of the debt interest rate resulting from higher default risk.⁵ In the fourth model, we also control for GDP per capita in

⁵ For a discussion on the impact of interest rate, see Cai et al. (2016) or Cai et al. (2021).

the spirit of Bergh and Funcke (2020) to take the economic differences between countries into consideration. As expected, we can confirm the significant impact of a country's economy on the success of crowdfunding projects.

Finally, in the last two specifications, we introduce two additional explanatory variables that capture the quality of the formal institutions in the form of legal protection and regulatory arrangements. The fifth model supports the hypothesis that a higher level of institutional quality (rule of law) positively affects the success of crowdfunding projects (H2) because the coefficient associated with the hypothesized effect is large, positive, and statistically significant. Similarly, positive and statistically significant results based on the sixth model support the hypothesis that better regulatory framework that is related to crowdfunding positively impacts the success of crowdfunding projects (H2). Moreover, the effects of formal institutions seem to be of high economic significance, particularly in the case of general institutional quality. Our estimations indicate that individual investors who consider supporting a lending-based crowdfunding project are inclined to search for an environment with a good level of legal protection. The economic significance of the relevant coefficients suggests that the relative impact of institutional quality on the success of lending crowdfunding projects is significantly higher than the effects of social trust.⁶

In the broader context of the contemporary digital economy, we can find a parallel between the relatively low impact of trust on the success of crowdfunding projects found in our analysis and the empirical findings of Bergh and Funcke (2020). As with crowdfunding, the sharing economy is considered to be closely related to trust. However, Bergh and Funcke (2020) provide the first cross-country analysis of the sharing economy and conclude that neither of the sharing-economy's services require high levels of social trust to succeed. Therefore, we should admit that high levels of social trust might not be as critical for the development of crowdfunding and the sharing economy as had been broadly expected. For that, we perform a supplementary analysis and report results in Appendix Table A4. Our results show that lack of trust in these new sectors might be successfully substituted with the high quality of formal institutions, which is in line with findings of Rau (2020) and Bergh and Funcke (2020).

⁶ One can hypothesize that a crowdfunding can be a source of financing naturally appealing to participants with high level of trust. Despite that here is some literature studying the effects of trust on financial market participation (Georgarakos and Pasini, 2011; Cui and Zhang, 2022), to the best of our knowledge, there is no research dealing with sorting of investors according to their levels of trust in the area of crowdfunding. Plus, our dataset does not allow for such distinction. However, our results show that the effects of trust are significantly economically weaker than those of formal institutions. Fort that, we assume that selection bias due to different levels of trust among investors seems to be of low importance.

As stated earlier, we believe that project funding is successful if the raised amount reaches at least 100% of the goal (Hasan et al., 2021; Cumming et al., 2020). However, some platforms consider projects successfully funded even when the raised amount does not reach the defined goal. For that, as a robustness check, we use the status “funded,” obtained from the platform, as an alternative indicator of project funding. Regression results of such modifications are reported in Appendix Table A5 and do not deviate from our baseline results that are reported in Table 1. Hence, the results are robust with respect to an alternative finding definition and do not depend on the amount of money raised via crowdfunding.

In the next step, we extend our baseline analysis to differentiate the effects of social trust and institutional quality on lending crowdfunding projects on national and international crowdfunding platforms; results are presented in Table 2. In this step, we are able to further test the hypothesis on the potentially different financial impacts of social trust and institutional quality on national versus international levels (H3).

Our results from models 1 and 2 show that the positive effects of a country’s social trust are greater on national platforms than across all platforms and vice versa. The results are in line with the intuition that if one believes that unknown counterparts in one’s country can be trusted, then one is ready to invest money on a national platform and vice versa. In this sense, the finding also indicates a non-marginal sociological role of the bridging capital (based on the construct of social trust; Putnam, 2000; Patulny and Svendsen, 2007) that is greater on national platforms rather than on international ones. Furthermore, our results from models 3 and 4 show that the positive effects of a country’s institutional quality are greater on international platforms than across all platforms and vice versa. Again, it confirms the intuition that one is ready to invest money on a foreign platform if one believes in the rule of law in the country in which the platform is located. In addition, our results from models 5 and 6 show that the positive effect of a country’s specific regulatory framework on crowdfunding is greater on international platforms than across all platforms and vice versa. Finally, the positive effects of a country’s regulations are even greater than those of the general rule of law.

5. Robustness Analysis

We perform a series of robustness checks to address the robustness and stability of our results. In particular, we focus on individual project features as creditworthiness of borrowers, project size, and platform location, which potentially impact the results of crowdfunding. Low

creditworthiness of borrowers, large size of the project goal, and dubious platform location might all mean a lower chance of funding success.

First, we address the creditworthiness of borrowers (project initiators) and provide results separately for different project-risk categories in Table 3. Project-risk categories represent various standardized debt-risk categories based on platform information about the creditworthiness of project initiators and ratings resulting from the historical solvency record of a specific platform. Category "A" represents the best, while "G" represents the worst rating. Our results confirm a stable positive effect of social trust on crowdfunding-project success in general. In the single exception, a negative impact of social trust is shown in the case of a poor credit rating (category G). We conjecture that in this case, the high sensitivity of investors in high-trust countries is the reason why they tend to stay away from risky projects, and as such, the effects of social trust are negative.

Similarly, institutional quality and a specific regulatory framework have a significant positive effect on crowdfunding-project success. However, high-risk lending-based projects with past records of low-solvency project initiators produce a negative impact (column 4) despite the specific legislative regulations that are in place. In such a case, the regulations do not seem to produce enough assurance, and lending activity is reduced on platforms that comply with redundant regulations.

We further control for goal and debt interest rate (project controls) and GDP per capita (macroeconomic control). At this step, we point out the heterogeneous effects of debt interest rate as in Cai et al. (2016). The prior literature often hypothesized that interest rate increases the likelihood of successful lending-based project funding (Greiner and Wang, 2010; Feng et al., 2015; Cai et al., 2016). We are able to extend this approach by including the control of project-risk categories in our analysis. This way, we can confirm the signaling effect of high interest rate that positively affects the success of funding; however, this is the case only for projects with the highest rating. On the contrary, results based on projects with worse ratings indicate the significant negative effects of debt interest rate on project success resulting from credit risk. Hence, we believe that higher debt interest rate signals a higher credit risk and decreases crowdfunding-project success.

Similarly, our estimations indicate that the effects of the project goal on the probability of funding success depend on the creditworthiness of the borrowers as well. As Cai et al. (2016) report, the effects associated with the goal amount can be confounded by various issues. Investors might consider the amount a risk factor, which decreases the probability of project funding (Cordova et al., 2015; Kuppaswamy and Bayus, 2017). Alternatively, the goal amount

could be understood as a credit cue that increases the probability of success (Feng et al., 2015; Cai et al., 2016). Our results show a negative effect of project-goal size in low-risk projects (category A). However, there is a significant positive effect of project-goal size in the case of risky projects (categories B–F), potentially because the initiators of large projects can be perceived more trustworthy (Feng et al., 2015). On the other hand, larger projects in the worst rating category (G) can lead to high losses, and such an intuition is attested by a negative effect of the goal size on project funding in this category. Finally, we confirm the significant positive impact of a country's economy on the success of crowdfunding projects across all risk categories.

We further extend our focus on the intricate effects of the goal amount by grouping the projects according to their size identified by the project goal (Table 4). This way we are able to control for the borrower's target and at the same time we account for the role of the overconfident borrower. The groups are formed based on the psychological thresholds of \$5,000 shown in Figure A4. In Table 4, we document the significant positive effects of social trust on crowdfunding-project success in the case of smaller projects below the threshold of 25,000 USD. On the contrary, there are significant positive effects of a country's institutional quality on project-funding probability for projects exceeding 25,000 USD as well as for the smallest projects below 15,000 USD. The findings intuitively support our earlier baseline results in that for smaller projects social trust seems to be a sufficient factor for the project funding success but for higher demanded amounts an investor "protection" in form of prime-quality formal institutions is probably decisive factor. In any event, the results further confirm a significant positive impact of a country's specific regulatory framework on crowdfunding development. As a complementary robustness check, we perform estimation using quartile scales. The results are reported in Appendix Table A6 and confirm our previous results reported in Table 4.

Finally, in Table 5, we report the results of regression analyses for specific geographical regions and country groups. The results are broadly in line with our previous findings. Still, the estimations open room for future research discussing potentially different effects of social trust and institutional quality in large and small and rich and poor countries (Rau, 2020) or close and distant countries or regions (Agrawal et al., 2011; Hasan et al., 2017c).

7. Conclusions

Essential contributions by Arrow (1972) and North (1990) emphasize that modern market economies are based on impersonal exchange between parties that do not know each other. Economic developments in the twenty-first century and further depersonalization imply a growing importance of trust among parties and build-up of institutional quality guarantying property-rights protection and enforcement of contracts. Against this background, we explore the financial impact of social trust and institutional quality based on the behavior of thousands of people mirrored in a unique, large, hand-crafted dataset covering more than 850,000 lending crowdfunding projects across 155 platforms in 22 countries.

Our key findings show that social trust, general institutional quality, and the existence of a crowdfunding regulatory framework positively affect the success of lending crowdfunding projects. The results are highly statistically significant across all regression specifications. However, there are remarkable differences in terms of their economic significance. The financial impact of formal institutions seems to be decisive. Moreover, our estimations show that individual investors primarily search for environments with a general rule of law, while the effects of a specific regulatory framework play a supplementary role.

Furthermore, our results indicate that the effects of social trust on financing success are less economically significant than those of institutional quality. This finding challenges the common belief that a high social-trust level is a fundamental precondition for the development of crowdfunding. Our results show that smaller extent of trust might be substituted with the high quality of formal institutions, which is in line with findings of Rau (2020) and Bergh and Funcke (2020). Thus, our results show that institutional trust might be the key ingredient impacting anonymous world of financial platforms.

We also shed light on the different financial impacts of social trust and institutional quality at national versus international levels. In general, the financial impact of social trust is greater in national environments than international environments. However, formal institutions have a greater financial impact on international platforms than domestic platforms. If we focus solely on international platforms, the positive effects of regulations on crowdfunding are even stronger than the effects of general rule of law.

Our key result is that in an anonymized financial environment, trust at the social level struggles to materialize, as evidenced by its lower economic significance compared to trust on an institutional level. However, both types are decisively important in that the financial impact of trust and institutional quality around the world is positive, and this is an encouraging implication, indeed.

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Tables

Table 1: Impact of social trust and institutions: Overall lending-based project funding

| | (1) | (2) | (3) | (4) | (5) | (6) |
|----------------------------|---|---------------------|----------------------|----------------------|----------------------|----------------------|
| | Dependent variable: Project-funding success (0/1) | | | | | |
| Trust (logs) | 0.031*** (0.001) | 0.032*** (0.001) | 0.006*** (0.000) | 0.006*** (0.000) | 0.004*** (0.001) | 0.003*** (0.001) |
| Goal (logs) | | | -0.003*** (0.000) | -0.004*** (0.000) | -0.003*** (0.000) | -0.003*** (0.000) |
| Debt interest rate | | | -0.024*** (0.003) | -0.024*** (0.003) | -0.017*** (0.003) | -0.015*** (0.003) |
| GDP per capita (logs) | | | | 0.086*** (0.006) | 0.236*** (0.007) | 0.247*** (0.007) |
| Leg and prop rights (logs) | | | | | 0.514*** (0.011) | 0.489*** (0.011) |
| Platform regulation | | | | | | 0.020*** (0.001) |
| Platform country dummies | Yes | Yes | Yes | Yes | Yes | Yes |
| Project category dummies | No | Yes | Yes | Yes | Yes | Yes |
| Time dummies | No | Yes | Yes | Yes | Yes | Yes |
| Number of projects | 845,683 | 845,683 | 791,393 | 791,393 | 791,393 | 791,393 |
| Log likelihood | -6.81E+04 | -5.98E+04 | -3.08E+04 | -3.07E+04 | -2.94E+04 | -2.92E+04 |

Note: The results show the marginal effects of generalized linear logistic regression in 2005–2017. *Project funding success (=1)* denotes that the specific project reaches 100% of the funding goal or more. Trust represents the survey response rate of the World/European Values Survey (question: "Most people can be trusted?") in the selected country (U.S. state). Other results, including numerous macroeconomic controls (including interest rate premia, number of internet users, and corruption perception index), provide similar results (available upon request). *, **, and *** denote significance at 10, 5, and 1%. Standard errors are reported in parentheses.

Table 2: Impact of social trust and institutions: National and multi-national platforms

| | (1) | (2) | (3) | (4) | (5) | (6) |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Dependent variable: Project-funding success (0/1) | | | | | | |
| Goal (logs) | -0.003*** (0.000) | -0.003*** (0.000) | -0.003*** (0.000) | -0.003*** (0.000) | -0.003*** (0.000) | -0.003*** (0.000) |
| Debt interest rate | -0.025*** (0.003) | -0.025*** (0.003) | -0.025*** (0.003) | -0.025*** (0.003) | -0.024*** (0.003) | -0.024*** (0.003) |
| GDP per capita (logs) | 0.050*** (0.004) | 0.050*** (0.004) | 0.051*** (0.004) | 0.051*** (0.004) | 0.048*** (0.004) | 0.048*** (0.004) |
| Trust (logs) | 0.003*** (0.001) | 0.008*** (0.001) | 0.003*** (0.001) | 0.003*** (0.001) | 0.003*** (0.001) | 0.003*** (0.001) |
| Leg and prop rights (logs) | 0.172*** (0.010) | 0.172*** (0.010) | 0.153*** (0.010) | 0.150*** (0.010) | 0.209*** (0.009) | 0.209*** (0.009) |
| Platform regulation | 0.020*** (0.001) | 0.020*** (0.001) | 0.020*** (0.001) | 0.020*** (0.001) | 0.029*** (0.002) | -0.012*** (0.002) |
| Trust (logs) on national platforms | 0.005*** (0.000) | | | | | |
| Trust (logs) on international platforms | | -0.005*** (0.000) | | | | |
| Leg and prop rights (logs) on national platforms | | | -0.003*** (0.000) | | | |
| Leg and prop rights (logs) on international platforms | | | | 0.003*** (0.000) | | |
| Platform regulation on national platforms | | | | | -0.040*** (0.002) | |
| Platform regulation on international platforms | | | | | | 0.040*** (0.002) |
| Platform country dummies | Yes | Yes | Yes | Yes | Yes | Yes |
| Project category dummies | Yes | Yes | Yes | Yes | Yes | Yes |
| Time dummies | Yes | Yes | Yes | Yes | Yes | Yes |
| Number of projects | 791,393 | 791,393 | 791,393 | 791,393 | 791,393 | 791,393 |
| Log likelihood | -3.06E+04 | -3.06E+04 | -3.05E+04 | -3.05E+04 | -3.05E+04 | -3.05E+04 |

Note: The results show the marginal effects of generalized linear logistic regression in 2005–2017. *Project funding success (=1)* denotes that the specific project reaches 100% of the funding goal or more. Trust represents the survey response rate of the World/European Values Survey (question: "Most people can be trusted?") in the selected country (U.S. state). The additional effects of the selected regressors on *national platforms* and *international platforms* are interactions of the selected regressor and a dummy that takes the value of 1 for the platform where only domestic projects (national platform) or both domestic and foreign projects are presented (international platform). *, **, and *** denote significance at 10, 5, and 1%. Standard errors are reported in parentheses.

Table 3: Impact of social trust and institutions: Creditworthiness of borrowers

| | (1) | (2) | (3) | (4) |
|----------------------------|---|----------------------|---------------------|----------------------|
| | Project risk category: | | | |
| | A | B | C+D+E+F | G |
| | Dependent variable: Project-funding success (0/1) | | | |
| Goal (logs) | -0.002*** (0.001) | 0.003*** (0.000) | 0.001*** (0.000) | -0.006*** (0.000) |
| Debt interest rate | 0.080*** (0.019) | -0.097*** (0.013) | -0.005 (0.005) | -0.074*** (0.009) |
| GDP per capita (logs) | 0.194*** (0.006) | 0.144*** (0.004) | 0.219*** (0.006) | 0.121*** (0.014) |
| Trust (logs) | 0.006*** (0.001) | 0.003** (0.001) | 0.003*** (0.001) | -0.010*** (0.003) |
| Leg and prop rights (logs) | 0.050*** (0.016) | 0.012 (0.009) | 0.473*** (0.019) | 0.005 (0.034) |
| Platform regulation | 0.061*** (0.008) | | | -0.006*** (0.002) |
| Platform country dummies | Yes | Yes | Yes | Yes |
| Project category dummies | Yes | Yes | Yes | Yes |
| Time dummies | Yes | Yes | Yes | Yes |
| Number of projects | 135,067 | 148,239 | 298,647 | 116,582 |
| Log likelihood | -7.48E+03 | -5.95E+03 | -8.64E+03 | -5.04E+03 |

Note: The results show the marginal effects of generalized linear logistic regression in 2005–2017. *Project funding success (=1)* denotes that the specific project reaches 100% of the funding goal or more. Trust represents the survey response rate of the World/European Values Survey (question: "Most people can be trusted?") in the selected country (U.S. state). The *project risk category* represents standardized debt-risk categories based on platform information about the project owner's (borrower's) creditworthiness. Category "A" represents the best, while "G" represents the worst rating. *, **, and *** denote significance at 10, 5, and 1%. Standard errors are reported in parentheses. Missing coefficients denote multicollinearity.

Table 4: Impact of social trust and institutions: Project size (emotional ranges)

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|----------------------------|---|---------------------|----------------------|---------------------|---------------------|----------------------|----------------------|
| | Project size (goal, thousand USD) | | | | | | |
| | <=15 | 15–20 | 20–25 | 25–30 | 30–35 | 35–40 | >40 |
| | Dependent variable: Project-funding success (0/1) | | | | | | |
| Goal (logs) | 0.002 (0.011) | 0.002 (0.002) | -0.017*** (0.004) | -0.002 (0.005) | 0.002 (0.009) | -0.142*** (0.038) | -0.003** (0.002) |
| Debt interest rate | 0.059*** (0.007) | 0.018*** (0.004) | 0.005 (0.005) | 0.008 (0.006) | 0.012 (0.008) | -0.001 (0.036) | -0.843*** (0.045) |
| GDP per capita (logs) | -0.003 (0.003) | 0.014*** (0.002) | 0.013*** (0.002) | 0.017*** (0.002) | 0.099*** (0.005) | 0.256*** (0.017) | -0.343*** (0.015) |
| Trust (logs) | 0.009*** (0.003) | 0.005*** (0.002) | 0.002* (0.001) | -0.000 (0.002) | -0.002 (0.002) | -0.009 (0.006) | 0.003 (0.004) |
| Leg and prop rights (logs) | 0.067*** (0.014) | 0.000 (0.007) | 0.005 (0.006) | 0.059*** (0.009) | 0.130*** (0.009) | 0.100*** (0.034) | 0.727*** (0.033) |
| Platform regulation | | | 0.020*** (0.007) | 0.022*** (0.005) | | | 0.152*** (0.012) |
| Platform country dummies | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Project category dummies | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Time dummies | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Number of projects | 66,304 | 238,529 | 178,366 | 97,520 | 75,679 | 11,208 | 33,532 |
| Log likelihood | -1.41E+03 | -8.68E+03 | -6.18E+03 | -2.46E+03 | -2.66E+03 | -7.86E+02 | -7.16E+03 |

Note: The results show the marginal effects of generalized linear logistic regression in 2005–2017. *Emotional ranges* are given by histogram (see Appendix, Figure A3). *Project-funding success (=1)* denotes that specific project reaches 100% of the funding goal or more. Trust represents the survey response rate of the World/European Values Survey (question: "Most people can be trusted?") in the selected country (U.S. state). *, **, and *** denote significance at 10, 5, and 1%. Standard errors are reported in parentheses. Missing coefficients denote multicollinearity.

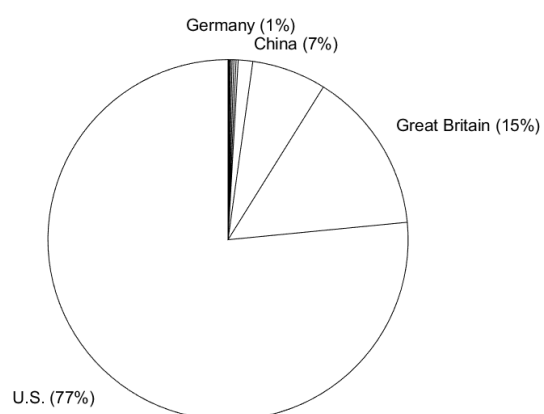
Table 5: Impact of social trust and institutions: Geographic location of platforms

| | (1) | (2) | (3) | (4) | (5) |
|----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | US, GB, DE, CN | excl. US | excl. GB | excl. DE | excl. CN |
| Goal (logs) | -0.003*** (0.000) | -0.007*** (0.000) | -0.002*** (0.000) | -0.005*** (0.000) | -0.001*** (0.000) |
| Debt interest rate | -0.023*** (0.002) | -0.234*** (0.012) | 0.002 (0.002) | 0.021*** (0.003) | -0.021*** (0.003) |
| GDP per capita (logs) | 0.041*** (0.004) | -0.273*** (0.006) | 0.003*** (0.001) | 0.044*** (0.003) | 0.048*** (0.004) |
| Trust (logs) | 0.004*** (0.000) | 0.007*** (0.002) | 0.012*** (0.001) | 0.002*** (0.000) | 0.003*** (0.001) |
| Leg and prop rights (logs) | 0.176*** (0.008) | 0.509*** (0.011) | 0.048*** (0.004) | 0.066*** (0.008) | 0.216*** (0.009) |
| Platform regulation | 0.022*** (0.001) | 0.031*** (0.004) | 0.019*** (0.001) | -0.001 (0.001) | 0.021*** (0.001) |
| Platform country dummies | Yes | Yes | Yes | Yes | Yes |
| Project category dummies | Yes | Yes | Yes | Yes | Yes |
| Time dummies | Yes | Yes | Yes | Yes | Yes |
| Number of projects | 784,641 | 136,839 | 685,893 | 780,473 | 777,788 |
| Log likelihood | -2.72E+04 | -1.22E+04 | -2.74E+04 | -2.58E+04 | -2.95E+04 |

Note: The results show the marginal effects of generalized linear logistic regression in 2005–2017. *Project funding success (=1)* denotes that the specific project reaches 100% of the funding goal or more. Trust represents the survey response rate of the World/European Values Survey (question: "Most people can be trusted?") in the selected country (U.S. state). *, **, and *** denote significance at 10, 5, and 1%. Standard errors are reported in parentheses.

Appendix

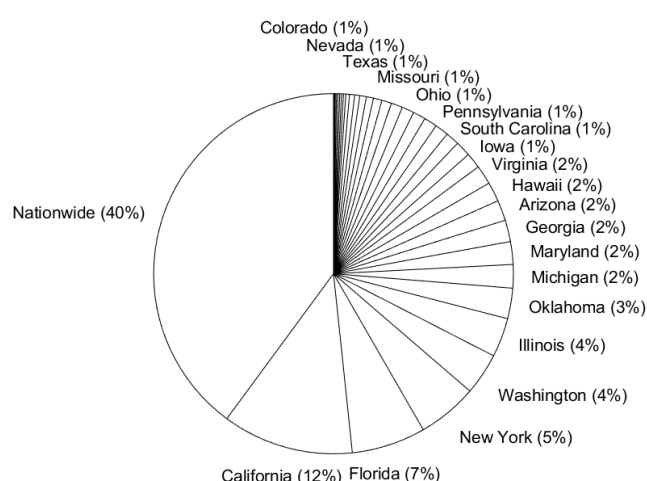
Figure A1: Geographic location of projects by platform country (%)



| Platform country | Project proportion | Platform country | Project proportion |
|------------------|--------------------|------------------|--------------------|
| U.S. | 76.5449% | Mexico | 0.0318% |
| Great Britain | 14.5718% | Belgium | 0.0105% |
| China | 6.6795% | Italy | 0.0104% |
| Germany | 1.3031% | Austria | 0.0048% |
| Spain | 0.1893% | Czechia | 0.0023% |
| Netherlands | 0.1859% | Sweden | 0.0014% |
| France | 0.1635% | Bulgaria | 0.0008% |
| Latvia | 0.1330% | Canada | 0.0008% |
| Japan | 0.0895% | Finland | 0.0008% |
| | | New Zealand | 0.0004% |
| Ireland | 0.0377% | Indonesia | 0.0002% |
| Switzerland | 0.0374% | | |

Note: The figure shows the geographic locations of platforms, which is where the projects are presented to lenders. The projects are presented as percentages of the total number of projects.

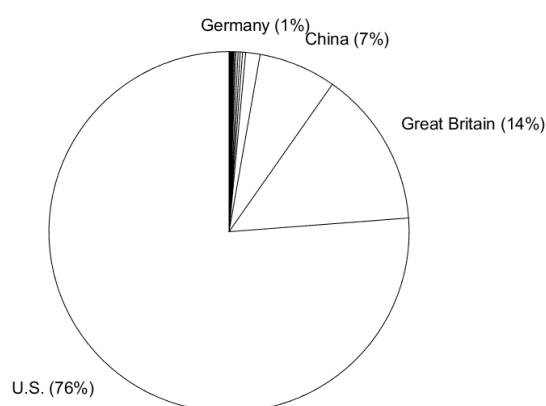
Figure A2: Geographic location of projects presented on platforms in U.S. states (%)



| Platform state | Project proportion | Platform state | Project proportion |
|----------------|--------------------|----------------------|--------------------|
| Nationwide | 39.8937% | Tennessee | 0.4564% |
| California | 11.7794% | Kentucky | 0.3288% |
| Florida | 6.6439% | West Virginia | 0.2117% |
| New York | 5.3843% | Arkansas | 0.1724% |
| Washington | 3.7651% | Louisiana | 0.1566% |
| Illinois | 3.5118% | Wisconsin | 0.1491% |
| Oklahoma | 2.7386% | Alabama | 0.1374% |
| Michigan | 2.1047% | Kansas | 0.1041% |
| Maryland | 2.0365% | Mississippi | 0.0526% |
| Georgia | 1.9392% | New Mexico | 0.0327% |
| Arizona | 1.8360% | Minnesota | 0.0206% |
| Hawaii | 1.7547% | South Dakota | 0.0202% |
| Virginia | 1.7233% | Massachusetts | 0.0120% |
| Iowa | 1.3983% | Connecticut | 0.0066% |
| South Carolina | 1.3784% | Oregon | 0.0044% |
| Pennsylvania | 1.2293% | Nebraska | 0.0018% |
| Ohio | 1.2221% | New Hampshire | 0.0017% |
| Missouri | 1.1853% | Rhode Island | 0.0017% |
| Texas | 1.1271% | Wyoming | 0.0017% |
| Nevada | 1.1007% | Alaska | 0.0014% |
| Colorado | 1.0317% | Idaho | 0.0012% |
| Delaware | 0.8724% | Vermont | 0.0012% |
| North Carolina | 0.7712% | District of Columbia | 0.0011% |
| Indiana | 0.6425% | Montana | 0.0006% |
| Utah | 0.5899% | North Dakota | 0.0002% |
| New Jersey | 0.4620% | | |

Note: The figure shows the geographic locations of platforms, which is where the projects are presented to lenders. The projects are presented as percentages of the total number of projects presented on platforms in the U.S. *Federal-level* platforms represent platforms where projects from non-local states or other countries are presented.

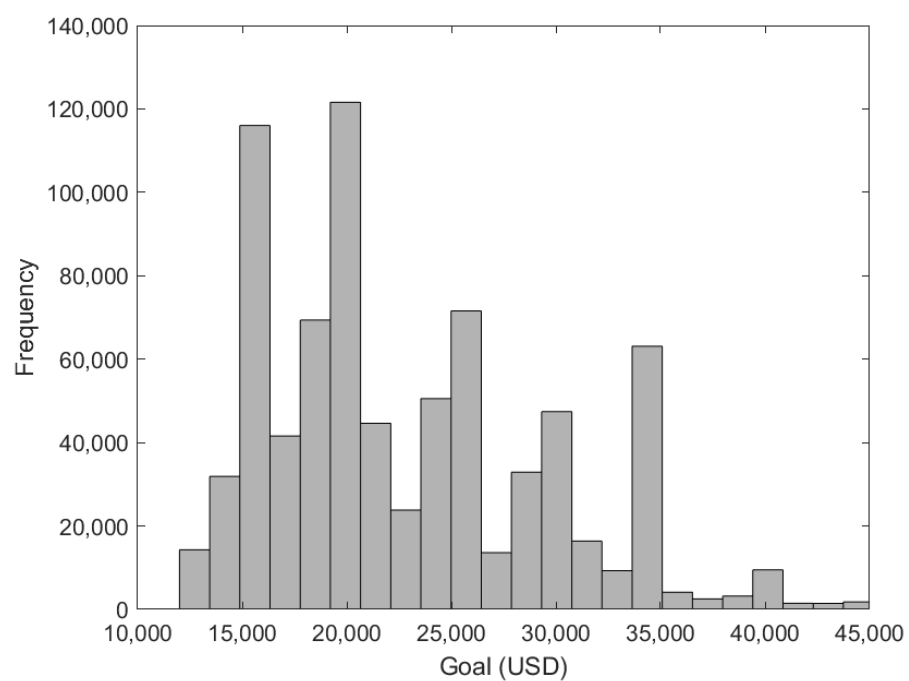
Figure A3: Geographic locations of borrowers (%)



| Country of borrower | Project proportion | Country of borrower | Project proportion |
|---------------------|--------------------|---------------------|--------------------|
| U.S. | 76.2157% | Canada | 0.0023% |
| Great Britain | 14.0526% | Taiwan | 0.0021% |
| China | 6.9631% | Finland | 0.0009% |
| Germany | 1.2914% | Colombia | 0.0006% |
| Russia | 0.2766% | Sweden | 0.0006% |
| France | 0.2102% | Australia | 0.0004% |
| Spain | 0.1891% | Kenya | 0.0004% |
| | | New Zealand | 0.0004% |
| Netherlands | 0.1865% | Antarctica | 0.0002% |
| Japan | 0.1112% | Brazil | 0.0002% |
| Botswana | 0.0984% | Guadeloupe | 0.0002% |
| Poland | 0.0504% | Indonesia | 0.0002% |
| Switzerland | 0.0417% | Namibia | 0.0002% |
| Latvia | 0.0373% | Rwanda | 0.0002% |
| Zimbabwe | 0.0373% | Uganda | 0.0002% |
| Ireland | 0.0356% | Chile | 0.0001% |
| Mexico | 0.0319% | | |
| South Africa | 0.0313% | Ghana | 0.0001% |
| Cameroon | 0.0307% | Croatia | 0.0001% |
| Lithuania | 0.0272% | Haiti | 0.0001% |
| Italy | 0.0178% | Isle of Man | 0.0001% |
| Denmark | 0.0146% | Norway | 0.0001% |
| Belgium | 0.0105% | Portugal | 0.0001% |
| Estonia | 0.0068% | Reunion | 0.0001% |
| Czechia | 0.0057% | Slovenia | 0.0001% |
| Bulgaria | 0.0050% | Tanzania | 0.0001% |
| Romania | 0.0046% | Vietnam | 0.0001% |
| Hong Kong | 0.0035% | Mayotte | 0.0001% |
| Austria | 0.0026% | | |

Note: The figure shows the geographic locations of borrowers (project owners) as percentages of the total number of projects.

Figure A4: Project-size distribution (histogram)



Note: The figure presents project-size (goal in USD) distribution in the range of 10,000–45,000 USD. The figure identifies the emotional project size range (goal in USD).

Table A1: Project categories

| Category | Number of projects | Funding rate (mean) | Goal in USD (mean) | Debt interest rate (mean) | Risk rating category (mean) |
|------------------------------------|-----------------------|---------------------------|--------------------------|------------------------------------|--------------------------------------|
| Automobiles & Components | 11,937 | 0.67 | 23,994 | 0.11 | C |
| Capital Goods | 60,799 | 0.27 | 64,086 | 0.14 | C |
| Commercial & Professional Services | 1,120 | 0.39 | 179,831 | 0.12 | C |
| Consumer Durables & Apparel | 24,910 | 0.92 | 35,273 | 0.14 | C |
| Consumer Services | 3,474 | 0.22 | 214,431 | 0.09 | C |
| Diversified Financials | 307,118 | 0.97 | 23,426 | 0.14 | C |
| Energy | 653 | 0.62 | 203,430 | 0.13 | C |
| Food & Staples Retailing | 4,284 | 0.92 | 34,017 | 0.16 | D |
| Health Care Equipment & Services | 3,214 | 0.74 | 100,171 | 0.15 | C |
| Materials | 230 | 0.41 | 61,294 | 0.10 | C |
| Media | 1,785 | 0.54 | 305,798 | 0.12 | C |
| Real Estate | 108,108 | 0.16 | 56,112 | 0.08 | B |
| Retailing | 470 | 0.24 | 123,981 | 0.10 | C |
| Software & Services | 3,374 | 0.40 | 583,359 | 0.15 | C |
| Technology Hardware & Equipment | 5,533 | 0.21 | 426,083 | 0.12 | C |
| Transportation | 3,453 | 0.39 | 57,114 | 0.13 | D |
| Unknown | 315,274 | 0.92 | 30,767 | 0.13 | C |
| Total | 855,736 | 0.78 | 40,562 | 0.13 | C |

Table A2: Descriptive statistics

| Variables | Obs | Mean | Std. dev. | Quantiles | | | | |
|----------------------------------|---------|-------|-----------|-----------|-------|-------|-------|-------|
| | | | | Min | 0.25 | Mdn | 0.75 | Max |
| Funding success (0/1) | 855,616 | 0.78 | 0.42 | 0.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Goal (logs) | 855,736 | 10.13 | 0.61 | 9.40 | 9.80 | 9.99 | 10.31 | 21.09 |
| Debt interest rate | 800,008 | 0.13 | 0.05 | 0.00 | 0.09 | 0.12 | 0.16 | 0.99 |
| GDP per capita (logs) | 855,698 | 10.82 | 0.32 | 9.36 | 10.87 | 10.95 | 10.97 | 11.25 |
| Trust (logs) | 854,618 | -0.93 | 0.23 | -3.19 | -1.00 | -0.96 | -0.89 | 0.00 |
| Legal and property rights (logs) | 855,698 | 1.98 | 0.08 | 1.42 | 1.98 | 2.00 | 2.00 | 2.18 |
| Platform regulation | 855,736 | 0.17 | 0.37 | 0.00 | 0.00 | 0.00 | 0.00 | 1.00 |

Table A3: Cross-correlation matrix

| | Funding success (0/1) | Goal (logs) | Debt interest rate | GDP per capita (logs) | Trust (logs) | Legal and property rights (logs) | Platform regulation |
|----------------------------------|-----------------------------|----------------|--------------------------|--------------------------------|-----------------|--|------------------------|
| Funding success (0/1) | 1.00 | | | | | | |
| Goal (logs) | -0.12 | 1.00 | | | | | |
| Debt interest rate | 0.03 | -0.07 | 1.00 | | | | |
| GDP per capita (logs) | 0.09 | -0.18 | 0.31 | 1.00 | | | |
| Trust (logs) | -0.05 | 0.06 | -0.09 | -0.28 | 1.00 | | |
| Legal and property rights (logs) | 0.00 | 0.04 | -0.13 | 0.38 | -0.15 | 1.00 | |
| Platform regulation | 0.07 | -0.03 | 0.01 | 0.15 | -0.01 | 0.18 | 1.00 |

Table A4: Impact of social trust and institutions: Institutional quality interactions

| | (1) | (2) | (3) | (4) |
|---|---|----------------------|----------------------|----------------------|
| | Dependent variable: project funding success (0/1) | | | |
| Goal (logs) | -0.003*** (0.000) | -0.003*** (0.000) | -0.003*** (0.000) | -0.003*** (0.000) |
| Debt interest rate | -0.025*** (0.003) | -0.025*** (0.003) | -0.024*** (0.003) | -0.024*** (0.003) |
| GDP per capita (logs) | 0.050*** (0.004) | 0.050*** (0.004) | 0.048*** (0.004) | 0.048*** (0.004) |
| Trust (logs) | 0.003*** (0.001) | 0.008*** (0.001) | 0.003*** (0.001) | 0.004*** (0.001) |
| Leg and prop rights (logs) | 0.170*** (0.010) | 0.169*** (0.010) | 0.209*** (0.009) | 0.211*** (0.009) |
| Platform regulation | 0.020*** (0.001) | 0.020*** (0.001) | 0.028*** (0.002) | -0.010*** (0.001) |
| Trust (logs) x Leg and prop rights (logs) at domestic platforms | 0.003*** (0.000) | | | |
| Trust (logs) x Leg and prop rights (logs) at international platforms | | -0.003*** (0.000) | | |
| Trust (logs) x Platform regulation at domestic platforms | | | 0.039*** (0.002) | |
| Trust (logs) x Platform regulation at international platforms | | | | -0.046*** (0.003) |
| Platform country dummies | Yes | Yes | Yes | Yes |
| Project category dummies | Yes | Yes | Yes | Yes |
| Time dummies | Yes | Yes | Yes | Yes |
| Number of projects | 791,393 | 791,393 | 791,393 | 791,393 |
| Log-likelihood | -3.06E+04 | -3.06E+04 | -3.05E+04 | -3.05E+04 |

Note: The results show marginal effects of generalized linear logistic regression in 2005–2017.

Project funding success (=1) denotes that specific project reaches 100% of funding goal or more.

Trust represents survey response rate of World/European Values Survey (question: "Most people can be trusted?") in the selected country (US state). Additional effects of the selected regressors at *domestic platforms and international platforms* is an interaction of Trust, the selected regressor related to the quality of formal institutions (Legal and property rights or Platform regulation) and a dummy that takes the value of 1 for the platform where only domestic projects are presented (domestic platform) or both domestic and foreign projects are presented (international platform). *, **, and *** denote significance at the 10%, 5%, and the 1% per cent level. Standard errors are reported in parentheses.

Table A5: Impact of social trust and institutions: Alternative identification of successful project funding by status

| | (1) | (2) | (3) | (4) | (5) | (6) |
|----------------------------|--|---------------------|----------------------|----------------------|----------------------|----------------------|
| | Dependent variable: Project-funding status (0/1) | | | | | |
| Trust (logs) | 0.033*** (0.001) | 0.034*** (0.001) | 0.003*** (0.000) | 0.003*** (0.000) | 0.002*** (0.000) | 0.002*** (0.000) |
| Goal (logs) | | | -0.001*** (0.000) | -0.001*** (0.000) | -0.001*** (0.000) | -0.001*** (0.000) |
| Debt interest rate | | | -0.015*** (0.002) | -0.011*** (0.002) | -0.006*** (0.002) | -0.005** (0.002) |
| GDP per capita (logs) | | | | -0.466*** (0.020) | -0.399*** (0.021) | -0.305*** (0.022) |
| Leg and prop rights (logs) | | | | | 0.320*** (0.011) | 0.310*** (0.011) |
| Platform regulation | | | | | | 0.012*** (0.001) |
| Platform country dummies | Yes | Yes | Yes | Yes | Yes | Yes |
| Project category dummies | No | Yes | Yes | Yes | Yes | Yes |
| Time dummies | No | Yes | Yes | Yes | Yes | Yes |
| Number of projects | 844,891 | 844,891 | 791,197 | 791,197 | 791,197 | 791,197 |
| Log likelihood | -6.44E+04 | -5.57E+04 | -2.37E+04 | -2.34E+04 | -2.29E+04 | -2.28E+04 |

Note: The results show the marginal effects of generalized linear logistic regression in 2005–2017. *Project funding success* (=1) denotes that the specific project changed its status to "funded". Trust represents the survey response rate of the World/European Values Survey (question: "Most people can be trusted?") in the selected country (U.S. state). Other results, including numerous macroeconomic controls (including interest rate premia, number of internet users, and corruption perception index), provide similar results (available upon request). *, **, and *** denote significance at 10, 5, and 1%. Standard errors are reported in parentheses.

Table A6: Impact of social trust and institutions: Project size (quartiles)

| | (1) | (2) | (3) | (4) |
|---|--------------------------------|---------------------|---------------------|----------------------|
| | Project size (goal, quartiles) | | | |
| | Q1 | Q2 | Q3 | Q4 |
| Dependent variable: Project-funding success (0/1) | | | | |
| Goal (logs) | -0.014*** (0.002) | -0.005 (0.007) | 0.006*** (0.002) | -0.009*** (0.000) |
| Debt interest rate | 0.039*** (0.004) | 0.015*** (0.005) | 0.009** (0.004) | -0.145*** (0.011) |
| GDP per capita (logs) | 0.010*** (0.001) | 0.011*** (0.002) | 0.008*** (0.001) | -0.017*** (0.004) |
| Trust (logs) | 0.010*** (0.001) | 0.003* (0.002) | 0.006*** (0.001) | 0.014*** (0.001) |
| Leg and prop rights (logs) | 0.014** (0.006) | 0.001 (0.009) | 0.020*** (0.005) | 0.269*** (0.012) |
| Platform regulation | | 0.020*** (0.007) | 0.028*** (0.007) | 0.039*** (0.003) |
| Platform country dummies | Yes | Yes | Yes | Yes |
| Project category dummies | Yes | Yes | Yes | Yes |
| Time dummies | Yes | Yes | Yes | Yes |
| Number of projects | 182,773 | 180,222 | 235,470 | 141,560 |
| Log likelihood | -4.92E+03 | -6.01E+03 | -8.38E+03 | -1.17E+04 |

Note: The results show the marginal effects of generalized linear logistic regression in 2005–2017. *Quartiles* divide the observations according to the USD goals of the projects. *Project-funding success* (=1) denotes that the specific project reaches 100% of the funding goal or more. Trust represents the survey response rate of the World/European Values Survey (question: "Most people can be trusted?") in the selected country (U.S. state). *, **, and *** denote significance at 10, 5, and 1%. Standard errors are reported in parentheses. Missing coefficients denote multicollinearity.

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Univerzita Karlova v Praze, Fakulta sociálních věd

Institut ekonomických studií [UK FSV – IES] Praha 1, Opletalova 26

E-mail : ies@fsv.cuni.cz

<http://ies.fsv.cuni.cz>