## CONTENTS

| 1 | INTRODUCTION                                     | Ţ  |
|---|--|----|
|   | The Plan   | 1  |
|   | Some Background Notes                            | 2  |
| 2 | SOVEREIGN RISK AND RATIONALITY                   | 6  |
|   | A Problem  | 6  |
|   | Norms  | 8  |
|   | Nicaragua, an Illustration                       | 11 |
| 3 | THE STANDARD APPROACH                            | 15 |
|   | Borrower Behavior and the Monotonicity Postulate | 15 |
|   | Competition and Credit Rationing                 | 20 |
| 4 | TWO MODELS OF LOAN PUSHING                       | 24 |
|   | The Conceptual Background                        | 24 |
|   | The Extortionate Lender                          | 26 |
|   | Lender Interdependence and Excess Supply         | 28 |
| 5 | CONCLUSION                                       | 35 |
|   | REFERENCES                                       | 36 |

## LIST OF FIGURES

| T | The Monopolistic Lender                           | 17 |
|---|---|----|
| 2 | The Competitive Lender: Excess-Demand Equilibrium | 21 |
| 3 | The Competitive Lender: Demand Equals Supply      | 22 |
| 4 | Excess-Supply Equilibrium                         | 27 |
| 5 | Lender Interdependence and the Supply of Credit   | 32 |