

Coordination and Gains from Relational Contracts: Evidence from the Peruvian Anchovy Fishery

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Abstract

Long-term relationships and relational contracts are important means to improve upon market outcomes when formal contracts are not available. However, measuring their impact is challenging and evidence is scarce. This paper empirically examines the efficiency gains coming from the use of informal agreements. I use a unique dataset in which I observe a compelling set of production and operational choices that precede each transaction in the Peruvian anchovy fishery. First, I show that in a context of highly variable supply conditions, commercial partners draw upon relational contracts to effectively exchange demand and supply assurance. Next, I provide evidence that the use of these informal agreements imposes positive net externalities on the agents operating without them. This paper is the first to document spillover effects of long-term relationships. Results suggest that the fraction of transactions mediated by relational contracts is privately but not socially efficient. I quantify gains in revenues of \$208,000 per year as a consequence of increasing the share of sellers with relationships in one standard deviation.

Keywords: Long-term Relationships, Relational contracts, Coordination, Supply Shocks.

JEL Codes: D23, L14, O12, O13, Q22.

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