

An Assessment into the Impact of Micro-Credit on Petty Traders in Bo Central Market-Southern Sierra Leone

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Abstract

The study's primary aim is to assess microcredit's impact on petty traders in Bo Central Market, Located in Bo City, Southern Sierra Leone. The specific objectives of the study include: i) to evaluate how access to microcredit influences the expansion of petty traders' businesses in Bo Central Market, ii) to analyze the effects of microcredit on the financial stability of petty traders in Bo Central Market, and iii) to identify the primary challenges petty traders face when attempting to access microcredit. The study combined qualitative data analysis and insights to explore how access to microcredit transforms the economic landscape for these traders. This research paper is helpful in the following ways: i) This study holds significant importance for several reasons, as it addresses critical gaps in understanding and implementing microcredit programs for petty traders in Bo Central Market. ii) the findings of this study will inform policymakers about the specific needs and challenges faced by petty traders in accessing and utilizing microcredit in Bo Central Market. Therefore, providing petty traders access to microcredit facilities in the Bo Central Market would affect their business growth, income level, and living standards. However, only a few studies have been conducted to determine the impact of this intervention and which steps can be taken at the policy level to improve it or invent other restructuring mechanisms. This study, therefore, seeks to address the following questions: How does access to microcredit influence the business operations and financial outcomes of petty traders in the Bo Central market? What are the primary challenges these traders encounter when accessing and managing microcredit?

Key Words: Microcredit, Petty Traders, Market

1.1 Introduction

Microcredit, a financial aid to the deficit sector of the economy, has, over the last millennium, become popular, especially among petty traders who have limited access to conventional sources of finance. Many petty traders aiming to continue in business and even become medium-sized would require more funds to achieve this aspiration. In Sierra Leone, microcredit programs have become integral to the survival of small traders, particularly in semi-urban regions like Bo. Kamara and Jalloh (2023) found that while microcredit has contributed to income stabilization for petty traders, its long-term impact on financial stability remains limited by external factors such as market infrastructure, economic volatility, and high business costs. The lack of a robust regulatory framework for microfinance institutions has raised concerns about predatory lending practices and loan defaults, which can negatively impact traders' financial security. Hulme & Mosley (2023) examined that petty traders who are typically engaged in small-scale commerce, such as selling foodstuffs, clothing, and household items, are often challenged by accessing financial resources needed to expand their businesses to the requirements posited by formal financial institutions to access funds including collaterals, high interest rates, and high cost of funds. These are the driving forces why they have, over the years, gravitated toward microcredit as a significant source of funding for their businesses; through this window, many have expanded their businesses from mere petty trading to some form of medium-sized enterprising. Kamara et al. (2014) found that microcredit programs in urban areas like Freetown have positively affected small-scale businesses, increasing income and business growth.

Many Petty traders in the Bo Central Market are microcredit clients who rely on microcredit funds to expand their businesses, continue in business, increase income levels, and subsequently improve the living standards of their families. This is crucial as many revelations suggest that the expectation that microcredit positively affects petty trading is minimal, and, in some instances, less impact is realized.

Therefore, microcredit finance institutions are seen as a global strategy for alleviating poverty (Asiamah & Osei, 2007). Conventional financing institutions such as commercial banks have yet to cater to the financial needs of petty traders, who form the more significant percentage of the deficit earners in the economy, which are reasons for the intervention of microcredit institutions. Microcredit is designed to support entrepreneurship and alleviate poverty, but recent research from across seven countries has shown that giving poor people access to microcredit does not lead to a substantial increase in household income.

1.2 Theoretical Framework-Poverty Alleviation Theory (Yunus,1970)

The theory aimed at reducing poverty and improving the economic well-being of low-income populations. It emerged and evolved, particularly in the mid-20th century, as global awareness of poverty and its detrimental effects grew. The theory gained traction during the 1960s and 1970s with the rise of international development efforts, influenced by economists like Amartya Sen and Robert Chambers. Critical components of poverty alleviation strategies include increasing access to essential services like education, healthcare, clean water, and financial resources. Microcredit, popularized in the late 1970s through the work of Muhammad Yunus and the Grameen Bank in Bangladesh, is a practical application of the theory, aiming to reduce poverty by providing small loans to people experiencing poverty without requiring collateral.

1.2.1 Critical Review of Related Work

Microcredit programs have gained significant recognition as a tool for poverty alleviation and economic empowerment, particularly among marginalized groups such as petty traders. These small-scale traders often lack access to formal financial institutions, making microcredit a crucial mechanism for business activities (Khandker et al., 2023). The expansion of small businesses, especially in informal markets like Bo Central Market, hinges on access to capital, which enables traders to scale operations, purchase goods, and enhance their market competitiveness (Elahi & Khalily, 2022). The ability to expand business activities is contingent on the availability of financial resources, which petty traders often need help to secure through conventional banking systems due to collateral requirements and the informal nature of their businesses (Banerjee et al., 2022). Access to microcredit provides these traders with much-needed capital that can be used to increase inventory, invest in new products, or improve existing business practices (Morduch, 2021). Empirical studies indicate that traders who receive microloans often show increased business revenue and profitability over time. However, the scale of this growth varies based on loan size, interest rates, and loan repayment flexibility (De Mel et al., 2020). A significant proportion of petty traders in developing countries are women and access to microcredit has been shown to impact women's economic empowerment profoundly.

Kabeer (2021) states that microcredit programs tailored to female petty traders contribute to economic and social empowerment. In Bo Central Market, where women dominate the trading space, access to microcredit allows female traders to expand their businesses while improving household income and livelihood. Furthermore, microcredit improves women's decision-making power within their households and communities, positively affecting their entrepreneurial capabilities (Ashraf et al., 2022). While microcredit has proven beneficial, it also poses challenges, particularly when traders need help with loan repayment. Studies by Hulme and Mosley (2023) opined that, in some cases, high interest rates or short repayment cycles can overwhelm small traders, leading to debt cycles that stifle business growth. In Bo Central Market, where traders often face fluctuating demand and market volatility, consistent loan repayment can be difficult, limiting the long-term sustainability of microcredit-driven business expansion.

Previous studies on microcredit in Sierra Leone show mixed results, particularly in rural and semi-urban markets such as Bo Central Market. According to Kamara and Jalloh (2023), traders who accessed microloans through community-based financial institutions in Sierra Leone demonstrated modest business growth. However, limited market access and competition constrained the overall economic impact. Previous

findings from Fofanah et al. (2022) indicate that while microcredit recipients in the Bo region experienced initial business growth, long-term expansion could have been improved by better infrastructure, high transportation costs, and market saturation.

Microcredit has been a popular tool in fostering financial inclusion among low-income populations, particularly petty traders who often operate outside formal banking systems, and financial stability in this context refers to the capacity of these traders to maintain consistent income flows, manage debt, and sustain their businesses in the long term (Banerjee & Duflo, 2022). In Bo Central Market, petty traders rely heavily on microcredit for liquidity and business continuity. However, the impact on their financial stability varies depending on access to capital, loan terms, and business practices Khandker et al. (2023).

Research conducted by Elahi and Khalily (2022) underscores that consistent access to microcredit increases traders' ability to navigate economic shocks, reduce financial vulnerability, and achieve business sustainability. For petty traders in Bo Central Market, microcredit has been identified as a tool for economic empowerment, enabling traders to smooth their income streams, plan for the future, and reduce reliance on informal lending sources (Kamara & Jalloh, 2023). Some traders have reported improvements in savings and credit discipline due to the structured nature of microfinance repayment schemes (Fofanah et al. (2022)). Despite the benefits, microcredit also introduces risks that can undermine the financial stability of petty traders. High interest rates and short repayment periods can increase financial stress, especially when traders experience inconsistent income due to seasonal fluctuations or market competition (Hulme & Mosley, 2023). In the Bo Central Market, where demand for goods may vary throughout the year, traders may need help to meet repayment deadlines, leading to debt accumulation and financial strain (Petty & Doherty, 2022).

A study by Rahman et al. (2021) described that microcredit borrowers often face challenges in balancing loan repayments with day-to-day operational costs, which can lead to a cycle of borrowing that exacerbates financial instability. Studies have shown that female traders are more likely to invest in microcredit loans in productive assets, which positively impacts their businesses' financial health (Kabeer, 2021).

In Bo Central Market, where many women operate as petty traders, access to microcredit has been linked to improved household financial stability and increased women's economic participation (Ashraf et al., 2022). However, gender-based constraints such as lower market access, higher household responsibilities, and societal expectations can limit how microcredit enhances women's financial stability (Elahi & Khalily, 2022). Therefore, while microcredit can improve female traders' financial outlook, other systemic barriers must be addressed to maximize its effectiveness.

Financial literacy is an essential factor that influences the success of microcredit in stabilizing traders' financial situations. A study by Karlan and Valdivia (2022) suggested that more than microcredit is needed to ensure financial stability; borrowers must also be equipped with financial planning, debt management, and business strategy skills. In the Bo Central Market context, traders who participate in financial literacy training programs and receive microcredit are more likely to manage their loans effectively, avoid over-indebtedness, and strengthen their businesses (Fofanah et al., 2022).

Furthermore, complementary services such as access to savings products, insurance, and business advisory services can enhance the ability of microcredit recipients to build sustainable businesses and achieve financial independence (Morduch, 2021). However, despite its potential to foster economic growth and poverty alleviation, petty traders often need help accessing microcredit. These challenges range from institutional barriers to socio-economic factors that hinder equitable access to finance (Banerjee et al., 2022). In Bo Central Market, the availability of microcredit is only sometimes aligned with the realities faced by small traders, resulting in access limitations (Kamara & Jalloh, 2023). One of the foremost challenges petty traders faces in accessing microcredit is the need for more collateral. Many microfinance institutions (MFIs) still require some form of collateral or guarantee for loans, which petty traders operating in informal sectors typically need to possess (Rahman et al., 2021).

Even when petty traders manage to access microcredit, they often face exorbitant interest rates and unfavorable repayment terms. Microfinance institutions, especially in low-income settings, charge high interest rates to cover operational costs and mitigate the risk of default (**Elahi & Khalily, 2022**). These high costs can make borrowing unaffordable for petty traders, especially those with low profit margins, as the repayment burden becomes overwhelming. **Kamara and Jalloh (2023) report** that many traders in Bo Central Market avoid microcredit due to fears of being unable to keep up with the high repayments, resulting in a cycle of financial exclusion.

The bureaucratic nature of loan application processes is another significant barrier for petty traders. Many MFIs and other financial institutions have complex application requirements, including formal documentation such as business plans, tax identification numbers, and financial records, which informal traders often need more (**Hulme & Mosley, 2023**). This is particularly problematic in regions like Bo, where petty traders may need more literacy or experience with formal financial procedures.

A recurring issue in microcredit access is petty traders' need for more financial literacy. Many small-scale entrepreneurs need an understanding of financial concepts, loan terms, and repayment structures, making it challenging to navigate the microfinance landscape effectively (**Morduch, 2021**). Traders often need clarification about the conditions attached to microcredit loans, which can deter them from applying or lead to mismanagement of borrowed funds.

Gender dynamics also play a role in microcredit access; female petty traders, who constitute a large portion of informal market participants, often face additional barriers compared to their male counterparts. In many developing countries, societal norms and patriarchal structures limit women's access to financial resources and decision-making power within households (**Kabeer, 2021**). Female traders may struggle to access microcredit due to a lack of collateral, male-dominated financial systems, and limited financial networks (**Ashraf et al., 2022**).

1.3 Methodology

The study's sample population is 58 petty traders operating in Bo Central Market. The study employed questionnaire administration and interview guides to collect data. The respondents returned all 58 questionnaires administered; five percent of the questionnaire was pretested, reviewed by experts, and validated for data collection. This study adopted a mixed-method approach, combining quantitative and qualitative methods to comprehensively examine the impact of microcredit on petty traders in Bo Central Market, Sierra Leone. The study was conducted in Bo Central Market, a prominent commercial hub in Bo, the second-largest city in Sierra Leone. The Bo Central Market includes Bojon Street Market, Fenton Road Market, Kissy Town Road, and Sewa Road; most petty traders operate around these locations. The target population includes petty traders operating within the market who have received microcredit loans and those who have yet to. This study will help isolate the effects of microcredit on various business and economic outcomes.

A simple random sampling method was adopted to ensure representation across different types of petty traders operating in Bo Central Market. Structured questionnaires were administered to 58 petty traders operating in Bo Central Market. The questionnaires include open and closed-ended questions and Likert-scale questions to quantify the experiences and outcomes of the traders in Bo Central Market. These interviews provide in-depth insights into the personal experiences of traders with microcredit, including its impact on their business practices and financial stability. The interview guide also explored the challenges traders face in accessing and utilizing microcredit in Bo Central Market. The study analyzed data using SPSS version 29 and converted it into average percentages and frequencies through Kobo Collect. There is no statistical data for petty traders operating in Bo Central Market. The population size of petty traders in Bo Central Market varies, but for this study. This estimation is based on prior research and consultations with market authorities. Ethical conduct throughout the research was essential for maintaining trust, integrity, and credibility and ensuring that the study generated valuable and socially responsible findings.

1.4 Results and Discussions

1.4.1 Results

The percentages and frequencies of an assessment into the impact of micro-credit on petty traders in Bo Central Market-Southern Sierra Leone is shown below:

Table 1: Gender of Respondents

	Frequency	Percent	Valid Percent
Female	34	58.6	58.6
Male	22	37.9	37.9
Total	58.6%	100.0	100.0

The results from Table 1 above showed that 62.1% of the respondents were female and 37.9% represented males at the BoCentral Market. This revealed that more women or females are obtaining micro-credit loans at the Bo Central Market than their men counterparts.

Table 2: Microcredit Finance Institutions Operating in Bo Central Market

	Frequency	Percent	Valid Percent
APO	1	1.7	1.7
BRAC	35	60.3	60.3
CEDAR	4	6.9	6.9
LAPO	15	25.9	25.9
MAP	1	1.7	1.7
HOPE S/L	1	1.7	1.7
Total	58	100.0	100.0

From Table 2 above, the results showed that six registered micro-credit institutions are operating in Bo Central Market, of which 1.7% represent (LAPO), 60.3% (BRAC), 6.9% (LAPO), and 1.7% represents Hope Sierra Leone respectively. The result further revealed that BRAC has the highest percentage of 60.3%, at Bo Central Market, and themarket's petty traders are more convenient in accessing loans from BRAC due to their loan flexibility than other microfinance institutions in Bo City Leone.The study focused on these locations due to their involvement in obtaining microcredit facilities in the region.

Table 3: Improvements in Petty Trading Using Microcredit Facility in Bo Central Market

	Frequency	Percent	Valid Percent
No	2	5.2	5.2
Yes	56	91.4	91.4
Total	58	100.0	100.0

From Table 3 above, the majority of the respondents, 91.4%, agreed that their businesses have improved using the Micro credit facility, 5.2% of the respondents indicated that their businesses have not improved using the Micro credit facility at Bo Central Market due to the high interest rate,high charges, loan application procedures, and government regulations. The study revealed that micro-credit facilitiesaid petty traders operating in Bo City Central Market.

Table 4: Financial Performance of Petty Traders Using Microcredit Facility

	Frequency	Percent	Valid Percent
Improved	54	93.1	93.1
Stayed the same	4	6.9	6.9
Total	58	100.0	100.0

From Table 4 above, 93.1%, representing the majority of the respondents, revealed that their petty trading businesses have improved financially through obtaining micro-credit facilities, 6.9% have not created any impact in their businesses, but their petty trading activities have remained the same over the years with no financial performance indicators and a decline in their operations.

Table 5: Rating the Challenges in Accessing Micro-Credit Facility in Bo Central Market

	Frequency	Percent	Valid Percent
No	28	48.2	48.2
Yes	30	51.7	51.7
Total	58	100.0	100.0

From Table 5 above, 51.7% of the respondents agreed that there have been enormous challenges in accessing micro-credit facilities in Bo Central Market, and 48.2% disagreed that there are challenges in accessing micro-credit from microfinance institutions operating in Bo City Central Market. This implies that accessing micro-credit in these financial institutions results in high interest rates, extra-service charges, low turnover, long application processes, government regulations, theft, and city council regulations. Difficulty in repayment, low amount of loan, low customer base, too many paperwork, and loan capital portfolio are some critical challenges affecting the Bo Central Market microcredit facility in the region.

Table 6: Assessing the Impact of Microcredit on Facility in Bo Central Market

	Frequency	Percent	Valid Percent
Dissatisfied	1	1.7	1.7
Neutral	12	19.0	19.0
Satisfied	34	58.6	58.6
Very Satisfied	8	13.8	13.8
Very Dissatisfied	1	1.7	1.7
Total	58	100.0	100.0

From Table 6 above, assessing the impact of micro-credit on petty trading businesses in Bo Central Market, 58.6%, representing the majority of the respondents, are satisfied, and 13.8% are delighted that micro-credit facility has created a positive impact on petty trading businesses in Bo Central market, and 1.7% of the respondents are dissatisfied with the process that micro-credit has not created any positive impact on their businesses and 5.1% remained neutral that they are neither satisfied nor dissatisfied with the impact of micro-credit on businesses in Bo central Market but has instead led petty traders to force-migration and early death.

Table 7: Experiencing Changes in Petty Traders in Bo Central Market

	Frequency	Percent	Valid Percent
No	5	8.6	8.6
Yes	52	89.7	89.7
Total	58	100.0	100.0

From Table 7 above, 89.7%, representing the majority of the respondents, have experienced changes in their businesses, and 8.6% have indicated that they have yet to see changes due to obtaining micro-credit in the Bo Central Market. This implies that changes in inventory turnover or rapid turnover and the number of suppliers, operating income, assets, and investments have increased through accessing microcredit in Bo Central Market.

Table 8: Assessing the Level of Satisfaction Using Micro-Credit Facility in Bo Central Market

	Freq.	Percent	Valid Percent
Dissatisfied	5	8.1	8.1
Neutral	9	15.5	15.5

Satisfied	33	56.9	56.9
Very Dissatisfied	5	8.6	8.6
Very Satisfied	2	3.4	3.4
Total	58	100.0	100.0

From Table 8 above, scaling the level of satisfaction using micro-credit facilities, 56.9% (satisfied), 3.4% (delighted), 8.1% (dissatisfied), 8.6% (very dissatisfied), and 15.5% (neutral). This revealed that the majority of the respondents are satisfied with accessing micro-credit facilities in the Bo Central Market due to the flexibility in accessing loans, and few of the respondents are dissatisfied with accessing micro-credit facilities in the Bo Central Markets due to the government and city council regulations.

Table9: Assessing Financial Stability Accessing Microcredit Facility

	Frequency	Percent	Valid Percent
Improved	47	81.0	81.0
Stayed the Same	6	10.3	10.3
Total	58	100.0	100.0

From Table 9 above, 86.1% of the respondents revealed that their businesses are stable using micro-credit facilities in the Bo Central Market, and 10.3% revealed that their businesses could be more stable using micro-credit facilities in the Bo Central Market. The result further implied that there is financial stability through accessing micro-credit in the Bo Central Market.

1.4.2 Discussion of Findings

- The general information of the respondents investigated includes: Gender registration of respondents of micro-finance institutions in Sierra Leone operating in Bo central market, southern Sierra Leone. In the research paper, most respondents who accessed loans from these micro-credit institutions operating in the Bo Central Market are females. At the same time, few males accessed micro-credit facilities at the Bo City Central market. This result explained that women are still the focus of these microfinance institutions due to their involvement in petty trading since requirements to set up these businesses are limited to a small amount of required capital and not many government regulations for its establishments.
- The majority of these petty traders obtained micro-credit from BRAC. This implies that six microfinance institutions have reduced the interest rate and repayment period since the change, which is better than the other micro-credit businesses operating in the Bo central market, followed by LAPO and the market strategy to increase their customer base.
- The study opined that two-thirds of the respondent revealed that there had been significant improvements in their business using micro-credit facilities. At the same time, one-third opposed that there has been no significant improvement in their business using the same micro-credit facility due to the service change, interest rate, migration, sudden death, theft rate, market dues, inflation, and city councils and government regulation. This further implied that obtaining a micro-credit loan has not impacted the petty trader's business, and some businesses have remained the same over the years with no financial performance indicators or improvements in the network.
- The research paper examined enormous challenges in accessing micro-credit facilities in the Bo central market, which result in long application processes, government regulations, difficulty in repayment, low amounts of loans, too much paperwork, high interest rates, and exorbitant extra charges. Most respondents have expressed that these challenges adversely affect their small businesses in the Bo Central market and significantly impact economic growth in the Bo Central market.
- The study has shown that most respondents are very satisfied with the micro-credit facility obtained by petty traders in the Bo central market, which has positively impacted the activities over the years. This implies that micro-credit is a short-term source of finance for small businesses with few government regulations and a limited capital requirement, and accessing this type of finance requires duration, interest rate, accessibility, and financial gearing.

- The research paper discussed that most respondents expressed that petty trader businesses in the BO central market are relatively stable because they can access micro-credit facilities, and few opposed the idea that some businesses are not stable because of high interest rates and other complex regulations and processes.

1.5 General Conclusion

The research paper concludes that microcredit can be pivotal in expanding petty traders' businesses, particularly in informal markets like Bo Central Market. The success of these microcredit programs depends on several factors, including loan size, repayment terms, market conditions, and the availability of complementary business services. Microcredit can enhance business capacity and improve financial resilience, especially for female traders; it also presents risks related to debt management, high interest rates, and market instability. For petty traders in Bo Central Market, the financial stability benefits of microcredit are contingent on several factors, including loan terms, financial literacy, the broader economic environment, lack of collateral, and financial literacy to bureaucratic processes. These challenges require a different approach that includes financial literacy programs, improved regulatory frameworks, and more inclusive microfinance models that cater specifically to the needs of the informal sector or traders.

1.6 Recommendations

The following recommendations are paramount to address the challenges faced by petty traders in the BoCentral market.

- Provide financial literacy for all petty traders in basic accounting principles and financial management skills to guide their petty trading businesses in the BoCentral market.
- Removal of complex government regulations and too much paper for those petty traders in Bo Central Market. Most traders need formal or primary education between the lines to make constructive and financial decisions.
- Review the high interest rate and some charges for these small businesses to increase the repayment period and reduce the rigid application processes and collateral security needed for approval. The capital portfolio for this loan is small, and the criteria set to access it are far below the capital requirements of petty traders in a reasonable timeframe.
- Review documentation requirements and the length of time needed for a reasonable period.

1.7 Scope Limitation and Future Research

Future studies should focus on different markets within the city, including all categories of traders.

1.8 References

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