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John Rust,
University of Maryland

7/3/2012

Dear John,

I have now received 3 reports on your submitted manuscript MS 10554 entitled:

"The Free Installment Puzzle"

with Sung-Jin Cho, Seoul National University.

Unfortunately, as I suggested in some previous e-mail the outcome is not good. All referees advise me to reject your paper. The main concern is that they are not sure what much can be learnt from this paper. Of course, and that is expected from you, you certainly draw the most of your data. However, your data are similar to those used in the numerous credit-scoring studies that one can find in the literature. An explanation of the "free installment puzzle" by transaction costs is natural. However, the bank must be aware of that and if they continue offering free installment there has to be a reason, which is likely related to the competition with other firms. For example, sales promotion is important for promoting brands in the competition with other brands, not so much for increasing the consumption of the current stock of consumers of the brand. The referees also complain that you refer to very few papers. There is a literature out there and it is expected that you position your paper precisely in that literature and that you clearly define your contribution. Lastly, you discuss parametric identification at length but what about nonparametric identification. You say that you have relatively few individuals making repeated use of their credit card. There should be room for more a more nonparametric approach to identification.

I do believe that there is room for a streamlined paper that would rigorously explain why instruments are important in a structural model such as yours using nonparametric identification arguments. You could make the point on a simpler model structure since your model is essentially a selection model. However, I reckon that this discussion would make ample use of standard arguments similar to those that one can find in Heckman's papers. Although I believe that your paper should find a place in a good quantitative field journal, like *QE* or a marketing journal, I am not convinced that this is material for *Econometrica*. I know that you will disagree with me, but this is why I will not ask you to revise and resubmit your paper.

I am sorry I have to convey such bad news as I have the deepest respect for your work in general. I hope that you will understand my position.

Sincerely,



Co-Editor, *Econometrica*