Empirical Household Finance
Online PhD-Level Class

Non-Mortgage Household Borrowing

Professor Johannes Stroebel
NYU Stern, NBER, CEPR
Plan For My Presentation Today

- Introduce household finance as a research field
- Some observations on today’s topic:
  Non-Mortgage Household Borrowing
- Present a research paper:
  Regulating Consumer Financial Products: Evidence from Credit Cards
Household Finance as a Field

- Traditionally, research in finance has been organized under the fields of Corporate Finance and Asset Pricing

- John Campbell (AFA Presidential Address, 2006)
  - Household Finance: “How do households use financial instruments to attain their objectives?”

- “At the time of the address, household finance had not yet earned its own title and identity. Today, household finance is a thriving, vibrant, self-standing field.” (Guiso & Sodini, 2013)

- Last few years: Many of the most successful candidates on the job market work broadly in household finance
Why Household Finance?

Households are special:

- Plan over long, but finite horizons; life-cycle pattern of income
- Important non-traded asset: human capital
- Relatively large and illiquid assets: housing
- Constraints on ability to borrow
  - Lack of collateral
  - Information frictions
- Subject to important behavioral biases (e.g., time-inconsistent preferences, non-rational belief formation)
- Subject to regulation of producers (e.g., banks, pension funds)
Why Household Finance?

Why do we care?

• Important welfare implications: Household utility often the primitive in social welfare functions

• Large magnitudes (U.S. total household debt \( \approx \) total corporate debt)

• Recent financial crisis: Driven by household balance sheets
Why Empirical Household Finance?

- Theories of optimal household behavior usually well established, often in related fields (labor, IO, macro, contract theory)

- Empirical findings often inconsistent with theories of optimal behavior
  - Insights from behavioral economics become relevant
  - Hard to distinguish but different policy implications
  - Additional (micro) evidence needed

- Scope for both reduced form work and structural modeling / estimation
Doing Work in Empirical Household Finance

What you need:

• An interesting question

• Empirical Strategy + Economic Framework

• Data

→ Focus on these issues during the upcoming presentations
## Household Balance Sheet

One way to think about topics & questions in household finance

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
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<tbody>
<tr>
<td>Human capital</td>
<td>Student loans</td>
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<tr>
<td>Tangible assets:</td>
<td></td>
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<tr>
<td>• Investments</td>
<td>Mortgages</td>
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<tr>
<td>• Retirement savings</td>
<td>Consumer credit</td>
</tr>
<tr>
<td>• Housing</td>
<td>Unsecured credit:</td>
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<tr>
<td>• Durables</td>
<td>• Credit cards</td>
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<tr>
<td></td>
<td>• Payday Lending</td>
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</table>
Five Half-Day Topics Classes

• Fridays, 12.30pm - 5.30pm ET

• **Objective:** Introduce you to some of the cutting-edge research & researchers in household finance.

• Sessions:
  • October 2: Non-Mortgage Household Borrowing
  • October 16: Peer Effects in Household Finance
  • November 6: Determinants & Effects of Household Expectations
  • November 20: Mortgage Borrowing & Default
  • December 4: Climate Finance

• Plan to release some slides + recordings on our websites.
# Session 1: Household Borrowing (Non-Mortgage)

Friday, October 2, 2020

<table>
<thead>
<tr>
<th>Time</th>
<th>Presenter</th>
<th>Affiliation</th>
<th>Topic</th>
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</thead>
<tbody>
<tr>
<td>12.30pm – 1.45pm</td>
<td>Johannes Stroebel</td>
<td>NYU Stern</td>
<td>Topic Overview&lt;br&gt;Regulating Consumer Financial Products: Evidence from Credit Cards</td>
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<tr>
<td>1.45pm – 2.30pm</td>
<td>Theresa Kuchler</td>
<td>NYU Stern</td>
<td>Sticking To Your Plan: The Role of Present Bias for Credit Card Debt Paydown</td>
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<tr>
<td>2.45pm – 3.15pm</td>
<td>Christopher Palmer</td>
<td>MIT Sloan</td>
<td>Real Effects of Search Frictions in Consumer Credit Markets</td>
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<tr>
<td>3.15pm – 3.45pm</td>
<td>Michaela Pagel</td>
<td>Columbia GSB</td>
<td>Repaying Consumer Debt and Increasing Savings After Retirement</td>
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<tr>
<td>4.00pm – 4.30pm</td>
<td>Scott Nelson</td>
<td>Chicago Booth</td>
<td>Private Information and Price Regulation in the US Credit Card Market</td>
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<td>4.30pm – 5.00pm</td>
<td>Neale Mahoney</td>
<td>Stanford University</td>
<td>Do Banks Pass Through Credit Expansions to Consumers who Want to Borrow?</td>
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<tr>
<td>5pm+</td>
<td>Moderated Panel Discussion</td>
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Consumer Credit: Large and Important Credit Class

Total Debt Balance and its Composition

Trillions of Dollars

Source: New York Fed Consumer Credit Panel/Equifax
Consumer Credit: Large and Important Credit Class

Mian, Sufi and Verner (2017)
Consumer Credit: Large and Important Credit Class
Consumer Credit: Interesting Questions

- Why are there credit constraints?
  - Usually not a lot of collateral
  - Adverse selection and moral hazard (see Nelson and Mahoney today)
- Are households behaving optimally given the credit constraints?
  - Behavioral biases such as present bias (see Pagel and Kuchler today)
  - Search frictions (see Palmer today)
- How does this affect aggregate economic outcomes and policy? (see Mahoney today)
- And how does this affect consumer financial regulation (see Stroebel and Nelson today)
Consumer Credit: Interesting Questions

- Many other questions we don’t have time to talk about today
  - Specific products such as payday lending (we will see credit cards and car loans)
  - Consumer Bankruptcy: Effects, optimal design, etc.
  - Credit registeries: Effects of information provision in this market
  - Consumer credit and the macro economy
  - Student loans + Interaction with Human Capital Acquisition
  - …