

Empirical Household Finance

Online PhD-Level Class

Non-Mortgage Household Borrowing

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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

Assets	Liabilities
Human capital Tangible assets: <ul style="list-style-type: none">• Investments• Retirement savings• Housing• Durables	Student loans Mortgages Consumer credit Unsecured credit: <ul style="list-style-type: none">• Credit cards• Payday Lending

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)

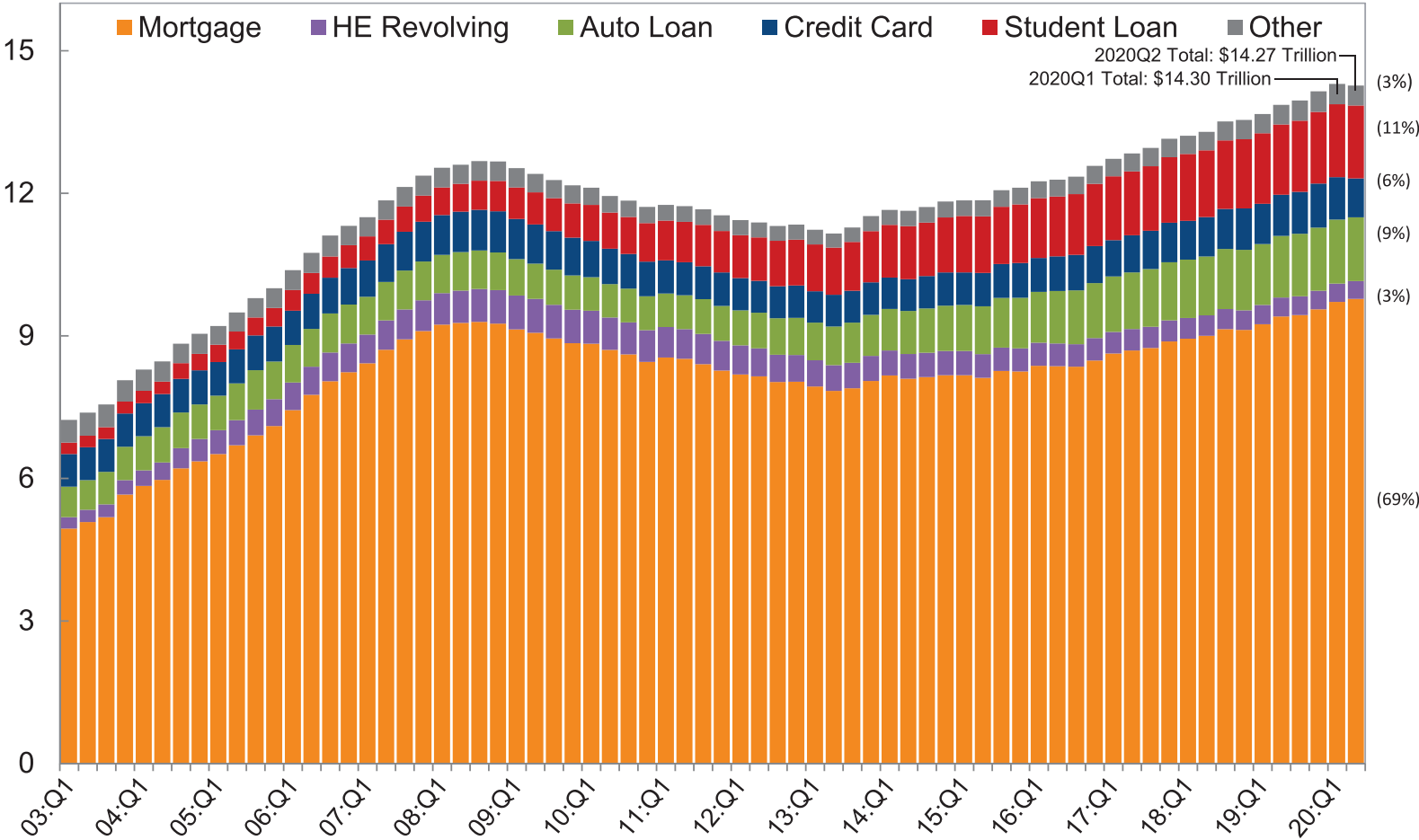
Friday, October 2, 2020

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

Consumer Credit: Large and Important Credit Class

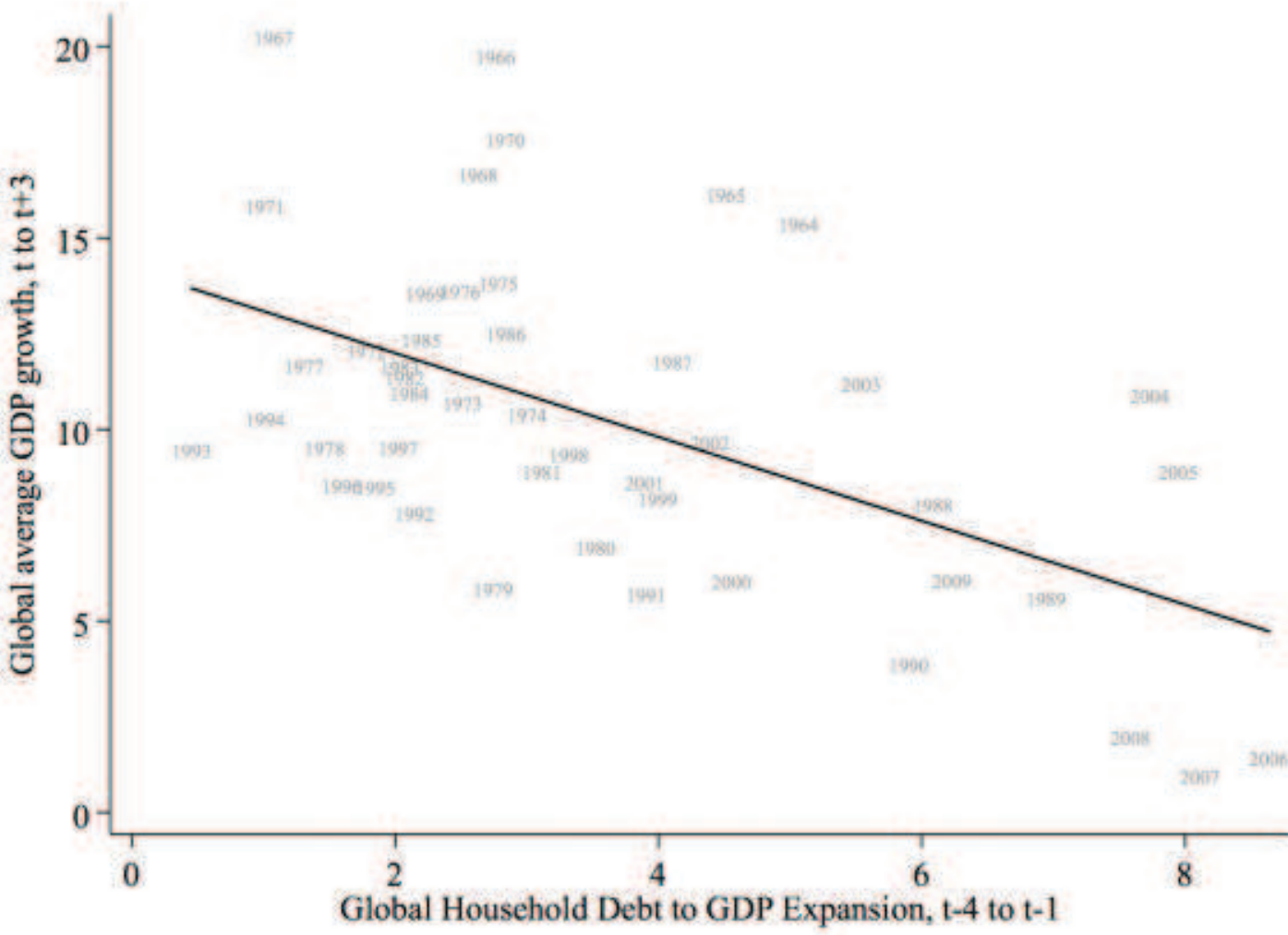
Total Debt Balance and its Composition

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

"All the News That's Fit to Print"

The New York Times

Late Edition
Today: Main, Today, Sports, Bus., High 55, Tonight, 55 and 57, Tomorrow, 55 and 57, Sunday, 55 and 57, Weather map on page 10.

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\$1.50



Residents of Galveston Island, in Texas, seeking services like power and water after Hurricane Ike, were evacuated Tuesday.

After Surviving Storm, Fleeing A Fetid, Devastated Galveston

By MICHAEL
GALVESTON, Tex. — For thousands of people stuck in an increasingly foul atmosphere in land, the aftermath of Hurricane Ike is a nightmare for the island.

BIDS TO HALT FINANCIAL CRISIS RESHAPE LANDSCAPE OF WALL ST.

By MICHAEL
Jittery Road For Markets

Wall Street and its federal government passed a series of bills over the weekend, and neither side backed down, pushing Lehman Brothers toward bankruptcy and raising the issue of a worldwide wall which markets opened Monday.

"The world is not in very good shape," U.S. Sen. Frank Lautenberg, chief negotiator for Charles Schwab & Company, said in a speech at a conference last week in New York City. "The stock market is worth only 10 percent of what it was before the crash."

In the Lehman case on Monday, the government, worried about the possibility of a total collapse in the U.S. economy, took over the company and the main part of its assets, forcing the



MERRILL IS SOLD

Fading to Find Buyer, Lehman Bros. Is Set to Wind Down

This article was reported by James Anderson, Eric Lipton and Andrew Ross Sorkin and was written by Mr. Sorkin.



The building serves, which includes the buildings of American Express, mark the start of a turbulent year in which once great financial institutions have been brought to their knees by a wave of hundreds of billions of dollars in losses because of bad mortgage loans and bad credit card loans.

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 registries: Effects of information provision in this market
 - Consumer credit and the macro economy
 - Student loans + Interaction with Human Capital Acquisition
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