

Discussion

Accounting for the Rise in Consumer Bankruptcy

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Recent Developments in Consumer Credit and Payment
2005

OUTLINE

- 1 Methodology
- 2 Model
- 3 Implementation
- 4 Findings
- 5 Summary

METHODOLOGY

Theory as a Measurement Tool

- **Model Specification**
- Model Calibration
- Counterfactuals

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MODEL

Key Elements

- Life-Cycle Model
- Uninsured Shocks to Earnings and Expenses
- Market For Consumer Loans With Option to Default
- Main Costs of Default:
 - Proportional Wage Garnishment (γ)
 - Fixed Psychic Cost (χ)
- Competitive Risk-Based Pricing of Consumer Loans

$$q^b(d', z, j) = \frac{(1 - \theta(d', z, j))d'}{1 + r} + \frac{\theta(d', z, j)y}{1 + r}$$

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IMPLEMENTATION

A Concern

- **Model: Garnishment Under Bankruptcy is 28 %**
 - Data: 0%
- Missing Important Costs of Bankruptcy
- Debtors Have Non-Exempt Assets
 - Net Liabilities = 0.7 < 9.0 = Gross Liabilities

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FINDINGS

Insensitivity of Filings

- **Insensitivity to \uparrow Earnings and Expense Risks**
- Insensitivity to \downarrow Trans. Costs
- Why?
 - Borrower Response to Risk-Based Pricing

$$\phi = \int \theta(x, z, \eta, l) d\mu(x, z, \eta, l)$$

- Large and Exogenous γ

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