

New Perspectives on Consumer Behavior in Credit and Payment Markets

October 3–4, 2013

A conference co-organized by the Research Department and the Payment Cards Center



FEDERAL RESERVE BANK
OF PHILADELPHIA

ABOUT

October 3 – 4, 2013

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About the Program in Consumer Credit and Payments

The Program in Consumer Credit and Payments (PCCP) is an initiative at the Federal Reserve Bank of Philadelphia focused on investigating and analyzing a broad range of issues related to consumers' use of payment instruments and credit. The program uses a cross-functional approach, working with individual areas of the Bank to identify relevant research and analysis. The program provides communication tools and opportunities to share information with all interested parties, with the ultimate goal of informing policy and policymakers.

About the Conference

This is the seventh installment of a biennial conference co-organized by the Research Department and the Payment Cards Center of the Federal Reserve Bank of Philadelphia.

The papers accepted for this year's conference address a wide range of issues, including the efficacy of financial education, testable theories of consumer decision-making, the relationship between safety nets and credit supply, liquidity constraints and consumption decisions, capital constraints and small business formation, and the effects of recent changes in regulation.

Thursday, October 3

5:00 p.m. Registration

5:30 p.m. – 7:30 p.m. Welcome and Reception

The views expressed in the papers and presentations are those of the authors and discussants and do not reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

AGENDA

Friday, October 4, 2013

A Conference Co-organized by the Research Department and the Payment Cards Center

Friday, October 4

8:00 a.m. – 8:45 a.m. Breakfast and Registration

9:00 a.m. – 10:30 a.m. Panel 1: Testing Theories of Consumer Decision-Making

Moderator: Mitchell Berlin, Federal Reserve Bank of Philadelphia

Sticking to Your Plan: Hyperbolic Discounting and Credit Card Debt Paydown

Presenter: Theresa Kuchler, New York University

Discussant: Jeremy Tobacman, University of Pennsylvania

**Financial Constraints and Consumers' Response to Cash Flow News:
Direct Evidence from Federal Tax Return Filings**

Presenter: Brian Baugh, Ohio State University

(coauthors: Itzhak Ben-David and Hoonsuk Park, Ohio State University)

Discussant: Michael Palumbo, Board of Governors of the Federal Reserve System

10:30 a.m. – 11:00 a.m. Break

11:00 a.m. – 12:30 p.m. Panel 2: Credit Use and Performance Among Younger Consumers

Moderator: Wenli Li, Federal Reserve Bank of Philadelphia

Are Young Borrowers Bad Borrowers? Evidence from the Credit Card Act of 2009

Presenter: Andra Ghent, Arizona State University

(coauthors: Peter Debbaut and Marianna Kudlyak, Federal Reserve Bank of Richmond)

Discussant: John Driscoll, Board of Governors of the Federal Reserve System

Financial Education and the Debt Behavior of the Young

Presenter: Meta Brown, Federal Reserve Bank of New York

(coauthors: Wilbert van der Klaauw, Jaya Wen, and Basit Zafar, Federal Reserve Bank of New York)

Discussant: Max Schmeiser, Board of Governors of the Federal Reserve System

AGENDA

Friday, October 4, 2013

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12:30 p.m. – 1:45 p.m.

Lunch

1:45 p.m. – 3:15 p.m.

Panel 3: Interactions Between Credit and Labor Markets

Moderator: Paul Calem, Federal Reserve Bank of Philadelphia

House Prices, Collateral, and Self-Employment

Presenter: Manuel Adelino, Duke University

(coauthors: Antoinette Schoar and Felipe Severino, Massachusetts Institute of Technology)

Discussant: Loretta Mester, Federal Reserve Bank of Philadelphia

Unemployment Insurance and Consumer Credit

Presenter: Brian Melzer, Northwestern University

(coauthors: Joanne W. Hsu, Board of Governors of the Federal Reserve System, and David A. Matsa, Northwestern University)

Discussant: Eugene Amromin, Federal Reserve Bank of Chicago

3:15 p.m. – 3:30 p.m.

Break

3:30 p.m. – 4:15 p.m.

Panel 4: Payment Regulation

Moderator: Bob Hunt, Federal Reserve Bank of Philadelphia

**Bank Profitability and Debit Card Interchange Regulation:
Bank Responses to the Durbin Amendment**

Presenter: Mark Manuszak, Board of Governors of the Federal Reserve System
(coauthors: Benjamin Kay, U.S. Department of the Treasury, and
Cindy M. Vojtech, Board of Governors of the Federal Reserve System)

Discussant: W. Scott Frame, University of North Carolina

4:15 p.m. – 4:30 p.m.

Closing Remarks

The views expressed in the papers and presentations are those of the authors and discussants and do not reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.



Biographies - PRESENTERS

Manuel Adelino is an assistant professor of finance at the Fuqua School of Business at Duke University. He conducts research on household finance, corporate finance, and real estate finance. His current work focuses on the effects of access to collateral on new business creation and on the effects of the supply of mortgage credit on house prices. He received a Ph.D. in financial economics from the Massachusetts Institute of Technology (MIT) Sloan School of Management. Before attending MIT, he worked as a business analyst in the Lisbon, Portugal, office of McKinsey & Company.

Brian Baugh is a third-year finance Ph.D. student at Ohio State University. His research interests include household finance, corporate finance, and taxes. He is particularly

interested in the savings decisions of households.

Meta Brown is a senior economist in the Microeconomic Studies Function of the Federal Reserve Bank of New York. She is an applied microeconomist who studies labor markets and households' consumption and investment choices. Particular areas of interest include consumer debt, job referrals and search, human capital investment, and late-life asset decumulation and bequests. Prior to joining the New York Fed, Brown was an assistant professor at the University of Wisconsin. She holds a Ph.D. in economics from New York University.

Andra Ghent is an assistant professor of real estate in the Department of Finance at Arizona

State University's (ASU) W. P. Carey School of Business. Her current research interests are real estate finance, consumer finance, and financial intermediation. Ghent's research has been published in the *Journal of Economic Dynamics & Control*, the *Journal of Money, Credit and Banking*, the *Journal of Urban Economics*, and the *Review of Financial Studies*. Her research has been cited by several media outlets, such as the *New York Times*, the *Wall Street Journal*, and the *New Republic*. Prior to working at ASU, Ghent held positions at Baruch College of the City University of New York, JPMorgan Securities, the Board of Governors of the Federal Reserve System, and the Bank of Canada. She holds a Ph.D. in economics from the University of California–San Diego, an M.A. in economics from the University of Toronto, and a B.A. (Honors) in economics from the University of British Columbia.



Biographies - PRESENTERS

Theresa Kuchler joined New York University's Stern School of Business as an assistant professor in July 2013. She earned a Ph.D. in economics from Stanford University. Prior to attending Stanford, she received a degree in business economics from the University of Mannheim and spent a year as a Fulbright visiting student in the Economics Department at the University of California–Berkeley.

Kuchler's research interests include how consumers and firms make decisions on financial and related matters, incorporating insights from behavioral economics. Her recent research leverages online data to empirically analyze why consumers hold expensive credit card balances, often over substantial time horizons, specifically testing for the influence of hyperbolic discounting. She has also evaluated how seller

experiments that are common in online markets can be used to learn about consumer behavior and market outcomes, and she has analyzed the implications for corporate acquisitions when deviations of beliefs from fundamental value by several market participants interact.

Mark Manuszak is a senior economist in the Payment Systems Studies section of the Reserve Bank Operations and Payment Systems Division at the Board of Governors of the Federal Reserve System. Prior to joining the Board in 2005, he was an assistant professor of economics and strategy at the Tepper School of Business at Carnegie Mellon University. Manuszak received a B.A. from Georgetown University in 1994 and a Ph.D. from Northwestern University in 2000.

Brian Melzer is an assistant professor in the Finance Department at the Kellogg School of Management at Northwestern University. Melzer received a Ph.D. in economics from the University of Chicago's Booth School of Business in 2008. His research interests include household finance, financial institutions, and financial regulation. His recent work examines the investment choices of heavily indebted homeowners and the effects of unemployment insurance on mortgage default. He has also studied the effects of payday loans.



Biographies - DISCUSSANTS

Eugene Amromin is a senior financial economist at the Federal Reserve Bank of Chicago. His research interests include housing markets, mortgage finance, household financial decision-making, taxation, and corporate finance. Amromin's research has been published in the *Journal of Financial Economics*, the *Journal of Public Economics*, and the *Journal of Money, Credit and Banking*. His work has also been covered in the popular press, including the *Wall Street Journal*, the *Washington Post*, and the *Chicago Tribune*. Amromin serves as an adjunct lecturer of finance at the Kellogg School of Management at Northwestern University.

Before joining the Chicago Fed in 2005, Amromin was on the staff of the Board of Governors of the Federal Reserve System in Washington, D.C. From 2011 to 2012, he served as a senior economist on the President's Council of Economic Advisers. Amromin received a B.A. in economics from Northwestern University and an M.A. and a Ph.D. in economics from the University of Chicago.

John Driscoll is a senior economist in the Division of Monetary Affairs at the Board of Governors of the Federal Reserve System. His research has

focused on macroeconomics, banking, and consumer finance and has appeared in the *American Economic Review*, the *Brookings Papers on Economic Activity*, and the *Journal of Monetary Economics*. In 2010, he was co-recipient of a certificate of excellence in TIAA-CREF's Paul A. Samuelson Award competition for Outstanding Scholarly Writing on Lifelong Financial Security. Prior to his current position, he taught at Brown University and was a Faculty Research Fellow at the National Bureau of Economic Research. He has also served as a senior economist on the President's Council of Economic Advisers. Driscoll received S.B. degrees in physics and economics from Massachusetts Institute of Technology and a Ph.D. in economics from Harvard University.

W. Scott Frame joined the Belk College of Business at the University of North Carolina–Charlotte in 2012 and currently teaches real estate finance. He is on leave from the Federal Reserve Bank of Atlanta, where he was a financial economist and senior policy advisor.

While at the Federal Reserve, Frame assisted in the response to the financial crisis in various ways. During the fall of 2008, he worked as a special advisor to the U.S.

Department of the Treasury and assisted with the conservatorships for Fannie Mae and Freddie Mac. In 2009, he was a member of the team that implemented the Federal Reserve's Term Asset-Backed Securities Loan Facility (TALF). Frame also acted as a consultant on housing finance–related issues to the President's Council of Economic Advisers in 2010.

Frame's research has appeared in several journals, including the *Journal of Finance*, the *Journal of Financial Economics*, the *Journal of Business*, the *Journal of Money, Credit and Banking*, the *Journal of Economic Literature*, and the *Journal of Economic Perspectives*.

He is an associate editor of the *Journal of Money, Credit and Banking*, the *Journal of Financial Services Research*, and the *Quarterly Journal of Finance and Accounting*. He is also a member of the American Economic Association, the American Real Estate and Urban Economics Association, the Financial Management Association, and the International Banking, Economics, and Finance Association. Frame received a Ph.D. in economics in 1996 and an M.A. in economics in 1993, both from the University of Georgia. He received a B.S. in economics in 1990 from Arizona State University.



Biographies - DISCUSSANTS

Loretta Mester is executive vice president and director of research at the Federal Reserve Bank of Philadelphia. As director of research, she leads a staff of economists and analysts who conduct research on macroeconomics, banking, payments, finance, and the regional economy. Mester also attends meetings of the Federal Open Market Committee in Washington, D.C., with the Bank's president. She oversees the Bank's Payment Cards Center, which conducts research on consumer finance and payments, and the Bank's Financial Statistics Department, which collects data and reports from financial institutions.

Mester is also an adjunct professor of finance at the Wharton School of the University of Pennsylvania, and a Fellow at the Wharton Financial Institutions Center. She is a member of the Finance Department Advisory Council, Fox School of Business and Management, Temple University, and the Economics Advisory Council of the LeBow College of Business at Drexel University.

Mester is an associate editor of several academic journals and serves on the management committee of the *International Journal of Central Banking*. She started a three-year term as co-editor of the *International Journal of Central*

Banking in 2013. She is a founding member and director of the Financial Intermediation Research Society and a member of the American Economic Association and its Committee on the Status of Women in the Economics Profession, the American Finance Association, the Financial Management Association International, and the Econometric Society. She was elected as a practitioner director of the Financial Management Association International and began a two-year term in October 2012.

Mester earned a B.A. in mathematics and economics *summa cum laude* from Barnard College of Columbia University and an M.A. and a Ph.D. in economics from Princeton University, where she held a National Science Foundation Fellowship.

Michael Palumbo is an associate director in the Division of Research and Statistics of the Board of Governors of the Federal Reserve System. In this role, he is responsible for overseeing research and analysis conducted in the capital markets, flow of funds, and short-term funding markets sections. His contributions range from supporting efforts to conduct monetary policy to supporting efforts to monitor and address risks to financial stability.

Prior to joining the Federal Reserve Board staff, he was on the faculty of the Department of Economics at the University of Houston. He is a member of the American Economic Association Committee on Economic Statistics and the Conference on Research in Income and Wealth.

Max Schmeiser is a senior economist at the Board of Governors of the Federal Reserve System, where he conducts research on consumer financial products and household financial behavior and oversees the compilation of the Board's annual Consumers and Mobile Financial Services survey and its Household Economics & Decision-Making survey. Before joining the Board, Schmeiser was an assistant professor in the Department of Consumer Science at the University of Wisconsin–Madison and associate director of research and computing at the school's Center for Financial Security. Schmeiser received an M.S. and a Ph.D. in policy analysis and management from Cornell University, an M.A. in economics from McMaster University (Canada), and a B.A. in economics from the University of Regina (Canada). His research has been published in numerous academic journals, including *Applied Economics*, *Economics & Human Biology*, the *Federal Reserve Bulletin*, *Health Economics*, the *Industrial and*



Biographies - DISCUSSANTS

Labor Relations Review, the *Journal of Consumer Affairs*, and the *Journal of Policy Analysis and Management*.

Jeremy Tobacman is an assistant professor in the Business Economics and Public Policy Department at the Wharton School of the University of Pennsylvania. He is a National Bureau of Economic Research Faculty Research Fellow, and previously he was a postdoctoral Research Fellow in the Economics Department of Nuffield College at the University of Oxford. He earned a Ph.D. in economics from Harvard University. Tobacman

studies behavioral economics and household finance, with a focus on low-income households. He has written a series of papers about how psychologically informed models of intertemporal choice help to explain patterns of simultaneous mid-life wealth accumulation and credit card borrowing in the United States. His ongoing work investigates why people borrow on payday loans and measures the individual-level effects of access to payday loan credit. Another one of his projects focuses on the design, adoption, and consequences of a retail rainfall insurance product in India.

For more information on the conference, other events that we sponsor,
or the research we produce, please visit our website.



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