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The impact of wealth of inattention: evidence from credit card repayments

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Discussion

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1. Motivation and contribution

- An empirical contribution to the literature on inattention. In particular, on the impact of wealth on inattention with an example from the credit card market.
- A sample of 75.000 credit cardholders is combined with two additional databases with information at the postal code level.
- Main result: inattentive individuals are more likely to be poorer.

2. General comments (I)

- A relevant hypothesis to be tested: impact of wealth on inattention. A priori, wealthier cardholders are expected to show higher inattention according to the basic criteria: i) competing stimuli; ii) salience of the decision. However, the result is that poorer individuals show higher inattention.
- Rationality vs. irrationality arguments are not considered BUT no explanation is given for the result obtained:
 - Are the results consistent? Apparently they are.
 - Are they really showing inattention? Is the empirical model correctly identified? If this is the case, the following comments may be just considered to add robustness to the results and to avoid criticism.

2. General comments (II)

- The wealth measure: is the with postal code information good enough? Canadian postal code: 200 households. Territorial density? Distance?
- A critical issue: some individuals deliberately incur in delinquencies. Is this appropriately controlled?
 - Precautionary balances and budget constraints are considered but there are various issues that raise some concerns:
 - Do the cardholders face other competing repayments not related to that bank relationship?
 - Do these cardholders, and in particular, the poorer ones, multi-home?
 - How do they access to the information on their balances?

2. General comments (III)

- A related paper by the same authors (“The costs of being late...”) suggests some additional considerations:
 - Do poorer credit cardholders behave irrationally and access to various bank and non-bank credit cards?
 - Do banks now this behavior and enjoy some market power (relationship between concentration and card delinquency penalties).
 - Treatment of repeated delinquency: learning effects, financial literacy?
 - Is the three times monthly income rule fixed? Is it a maximum limit? Do wealthier and poorer cardholders ask for the maximum level?

3. The econometrics (I)

- Selection bias claimed to be irrelevant in this case. What are the sources of selection bias? What about credit cardholders vs. other bank customers? What about singlehoming vs. multihoming? Budget constrained vs. budget unconstrained?
- Pseudo panel: unobservable heterogeneity? A mixed logit? A probit with selection bias?
- Is this a clearly unbalanced panel data. Some info on the monthly distribution of the info over 2004-2006. Delinquency and business cycle-time trend.

3. The econometrics (II)

- How are the standard errors clustered by postal code compared to the errors clustered by individual?
- Endogeneity concerns? “Rent own”, “Property value”, etc.
- Credit card type dummy? Revolving?
- Overall significance