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- May 7, 2009, 5 pm
 - HS II (lecture room II)
Institute for Advanced Studies
Stumpergasse 56, A – 1060 Wien
<http://economics.ihs.ac.at/seminars>

JOINT VIENNA MACROECONOMICS SEMINAR

Igor Livshits,
University of Western Ontario:

“Costly Contracts and Consumer Credit”

This paper explores the implications of technological progress in consumer lending. The model features households whose endowment risk is private information, and intermediaries which observe a noisy signal of each borrower's default risks. To offer a lending contract, an intermediary incurs a fixed cost. Each lending contract is comprised of an interest rate, a borrowing limit and a set of eligible borrowers. Technological improvements which lead to more accurate signals of a borrowers type or lower the cost of offering a contract increase the number of contracts offered and lead to the extension of credit to riskier households. This results in higher aggregate levels of defaults and borrowing. To corroborate the predictions of the model, we examine data on credit card borrowing reported by households in the Survey of Consumer Finance. We find that the number of different credit card interest rates reported (one measure of the “number” of contracts) has increased, that the empirical density of credit card interest rates has become much more disperse and lower income households' share of outstanding credit card debt has increased since 1983.

with James MacGee (University of Western Ontario & Federal Reserve Bank of Cleveland) and Michèle Tertilt (Stanford University, NBER and CEPR)