

LSF Lunchtime Seminar:

Real Effects of Search Frictions in Consumer Credit Markets

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Abstract

When demand is elastic, search costs can result in significant deadweight loss. We estimate how search frictions in credit markets distort final-goods consumption, contribute to substantial price dispersion, and modulate the pass-through of interest-rate shocks. Using rich microdata from millions of auto-loan applications and originations by hundreds of financial providers, we isolate plausibly exogenous variation in interest rates due to institution-specific pricing rules that price risk with step functions. These discontinuities lead to substantial variation in the benefits of search, affect physical search behavior, and distort extensive- and intensive-margin loan and car choices through quasi-random interest-rate markups. We further show that these discontinuities are more consequential in areas we measure as having high search costs. Overall, our results provide evidence of the real effects of the costliness of shopping for credit, the continued importance of local bank branches, and how search frictions inhibit the transmission of monetary policy to durable goods purchases. More broadly, we conclude that the welfare consequences of costly search include inefficient consumption in both primary and related markets.

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12:30 – 13:45pm

Location

Faculty of Law, Economics and Finance
JFK Building
29, avenue Kennedy L-1855 Luxembourg
Ground Floor, Nancy-Metz Room

Langue

English

Registration

- Free seminar
 - Registration by e-mail to lsf-events@uni.lu
(please specify full name and institution)
- Before 28th November 2019**

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