MARKETING COLLOQUIA

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Where: 741 JMHH
When: 12:00 PM to 1:20 PM

HETEROGENEOUS CONSUMER DYNAMICS AND THE FINANCING GAP

ABSTRACT:

This paper studies heterogeneity in consumer myopia and its role in creating a gap in financing cost across consumers in consumer credit markets. Using a unique data set of the US automobile and auto loan market, I and that consumers in the lowest income quartile tend to pay more for auto financing. In particular, they are less likely to accelerate car purchases with an interest rate hike in sight, acting as more myopic agents. I build a structural model to test and quantify the extent to which the financing gap arises from myopia, as opposed to differences in price sensitivities and automobile preferences. I find that consumers are considerably more impatient than would be implied by the real rate of interest, and socio-economically disadvantaged consumers are more myopic and more price sensitive. A decomposition analysis quantifies the amount myopia contributes to the predicted financing gap. Counterfactual analysis further shows that strategic dealers may exacerbate the financing gap by gaining market power from more myopic consumers.

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