

Brownbag Seminar (IN ENG)

FINANCIAL INCENTIVE, HOUSEHOLD SPENDING, AND DEBT ACCUMULATION

By Prof. WANG Yonglin Laura (Assistant Professor, Department of Economics)

Abstract: Rewards have increasingly become a prevailing and effective way to attract new credit card users or stimulate spending by existing card users. Why do banks provide cash-back rewards to their credit card customers? How effective is the reward scheme in stimulating credit card spending? What is the impact of rewards on a credit card user's debt accumulation? Using a proprietary data set from a major U.S. credit card company, this paper explores these questions by studying the impact of cash-back rewards on credit card users before and during their enrollment in the cash rewards scheme.

We find evidence that credit card users increase their monthly spending by \$70 during the first quarter after offered the rewards; however, their monthly debt increases disproportionately by \$120. Monthly debt outweighing spending indicates that monthly payments drop more than the marginal growth in spending from cash-back rewards. Further evidence suggests that credit card users offset their growing spending and debt on the card with cash-back by reducing their spending and debt on their other credit cards.

Heterogeneity tests indicate that inactive card users (those who do not use their card prior to the cash-back program) increase their spending and debt more than card users with debt before the cash-back program. We also find heterogeneous responses of card users depending on their demographic and credit constraint characteristics.

All are welcome!

Date: 13 April 2021 (Tue)

Time: 12:30 - 13:30

Venue: WYL314 & Zoom

For registration



Enquiry: 2616 7381 (Silvia)