The Marginal Propensity to Consume Out of Credit:
Evidence from Random Assignment of 54,522 Credit Lines

Deniz Aydın
Washington University in St. Louis

February 2017

Abstract

This paper investigates the effect of credit expansions on consumer borrowing and spending decisions using comprehensive data and a test-tube exogenous shock to credit availability. I design and implement a randomized trial at a European retail bank where credit lines are deliberately varied to 54,522 pre-existing consumer and small business cardholders. I find that credit availability has a precisely measured and economically large effect on spending and the use of credit. Contrary to conventional wisdom, the effect of credit is not confined to a small set of constrained consumers who are up against their limits. I show how the novel findings can be used to perform novel tests of competing models of intertemporal behavior (e.g. complete markets, permanent income, spender-saver, buffer-stock, impatient), and discuss implications for modeling linkages between the financial sector and the real economy; formulating fiscal, monetary and macroprudential policy; and evaluating welfare in the credit market.

*I am extremely grateful to my advisors Doug Bernheim, John Beshears, John Cochrane and Luigi Pistaferri for their invaluable guidance and support. I also thank Adrien Auclert, Scott Baker, Chris Carroll, Raj Chetty, Bob Hall, Ayşe Imrohoroğlu, Tulio Jappelli, Pablo Kurlat, Jonathan Levin, Davide Malacrino, Jonathan Parker, Amit Seru, Amir Sufi, Alp Şimşek, Aiga Šokenberga, Jialan Wang and Alonso Villacorta for comments and discussions. Financial support from NBER/Sloan Foundation and SIEPR is greatly acknowledged. All errors are my own.

†Email: daydin@wustl.edu. Website: sites.wustl.edu/daydin.