

# **Debit vs Credit:**

A Study of Self-Control in Shopping Behavior, Theory  
and Evidence

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## General comments

- Very interesting question why debit cards are so popular
- Presented explanation: Self-control!
  - Motivated by a search model, where the cost of computing optimal usage of budget is crucial
  - Unique evidence from checking accounts in support of theory
- Specific comments:
  - Theory:
    - why do we need a search model?
  - Empirics:
    - Difficulties of testing theories of self-control problems
    - Other explanations for presented evidence





## Theory: Search model

- People don't want to overspend, but to compute optimal budget usage involves (psychic) costs --> debit cards
  - “spending control is a rational/neoclassical motive for using debit” (p. 4)
- But where do self-control problems come from?
  - In the model, (1) some people exogenously overspend and (2) some have higher psychic costs of computing optimal budget
  - Those factors can be very behavioral (non-standard)
  - Why don't people learn their type?
- The paper would gain from a discussion, what the search model adds to the self-control argument?

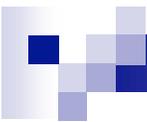




## Detecting self-control problems

- Difficult to show that people choose commitment device:
  - Some people do/would do something at one point in time which violates their long-term plans
  - People are aware of their problem and self-constrain by using debit cards (and even pay a cost to have this device)
- Test whether debit cards are a commitment device:
  - (Ask people about reasons to use debit cards)
  - Debit card users would spend too much if using credit cards
  - Debit card users deliberately choose it as a control device

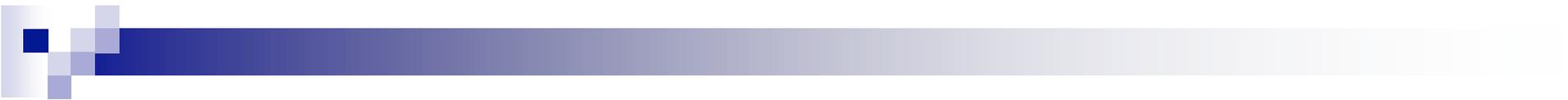




# Empirics: Spending pattern of debit users

- Spending pattern of debit users is different:
  - Pay round and equal amounts to credit card companies
    - *Interpretation:* debit card users pay off their debts they accumulated (against their plan) earlier on their credit card
  - Get money on more ATM locations
    - Debit card users are a selection of impulse purchasers who get money instantaneously when they see an awesome Swiss watch, ...
  - Withdraw more often money
    - As debit users know about their self-control, they keep less cash, but than have to withdraw more often
- Is this evidence for self-control?

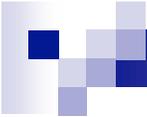




## Payments in round increments

- Other reasons for round payments:
  - Many people pay between minimum payment and full amount, which is likely to be a round amount (pay \$50 each month)
  - So debit users might even increase their debts
- What do people do who pay not round payments?
  - Pay minimum payment, less or the full amount?
  - Interpretation would be quite different if credit users don't revolve





## Debit users go to more ATMs and more often to ATMs

- Test of 'debit card users being impulse purchasers' (p. 35)?
- Why is this sign of impulsive behavior?
- In order to see whether debit users are more 'impulse purchasers' one has to know whether credit users use their credit card less impulsively
- This is a test whether debit users withdraw more cash: yes.
  - Decision to use cash (debit card) instead of credit card can still be based on various motives, e.g. they think it is more convenient, they use stores which do not take plastic, ...





## Other potential tests

- If people have to figure out their type, we would expect an interaction with age?
  - For example, the older debit users are the less the pay back their debts
- To get a notion of whether debit users are paying off debt, it would be interesting to know whether the level of payments differ between credit and debit users?





## Conclusion

- Self-control is a plausible explanation for people's use of debit cards
- Paper presents interesting evidence supporting this claim
- Empirically very difficult to detect self-control problems, but very important in understanding the question why people use debit cards!

