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Inattention and Inertia in Household Finance: Evidence from the Danish Mortgage Market

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Abstract

This paper studies inattention to mortgage refinancing incentives among Danish households. Danish data are particularly suitable for this purpose because there are minimal barriers to refinancing, yet many borrowers fail to refinance optimally, and the characteristics of these borrowers can be accurately measured. The paper estimates a mixture model of household refinancing types in which household characteristics affect both inattention (a low proportion of rational refinancers) and residual inertia (a low probability that fully inattentive households refinance). Many characteristics move inattention and inertia in the same direction, implying a positive cross-sectional correlation of 0.62 between these two household attributes. Younger, better educated, and higher-income households have less inertia and less inattention. Financial wealth and housing wealth have opposite effects, with the least inertia and inattention among households whose housing wealth is high relative to their financial wealth. There is suggestive evidence of persistent unobserved heterogeneity in attention.

Keywords: Denmark, household finance, inattention, inertia, mortgages, refinancing**JEL Classification:** G21, N20, R21, R31[Suggested Citation](#) >[Show Contact Information](#) >

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