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An Experimental Analysis of the Demand for Payday Loans

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Abstract

The payday loan industry is one of the fastest growing segments of the consumer financial services market in the United States. We design an environment similar to the one that payday loan customers face and then conduct a laboratory experiment to examine what effect, if any, the existence of payday loans has on individuals' abilities to manage and to survive financial setbacks. Our primary objective is to examine whether access to payday loans improves or worsens the likelihood of financial survival in our experiment. We also test the degree to which people's use of payday loans affects their ability to survive financially. We find that payday loans help the subjects to absorb expenditure shocks and therefore survive financially. However, subjects whose demand for payday loans exceeds a certain threshold level are at a greater risk than a corresponding subject in the treatment in which payday loans do not exist.

Keywords: [payday loans](#); [experimental economics](#)

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