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The demand for household debt in the USA: evidence from the 1995 Survey of Consumer Finance

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Abstract

This paper investigates first the factors which determine whether a household is likely to be rejected or discouraged from applying for credit and second, which factors explain the amount of debt which a household demands. All of the published papers which have addressed the first question have used data relating to the period 1978–1983 or, in one case only, 1984–1989. All the papers which have investigated the second question have used data for the earlier period only. In this paper data for 1990–1995 from the latest version of the Survey of Consumer Finance are used. A univariate probit model with standard errors corrected for sampling weights is used to shed light on the first question and a bivariate probit model followed by a two stage least squares selection model to estimate the demand for debt. Results are found which are similar to those for the earlier years and some new ones. In common with earlier results it is

found that a household demands less debt when the head of the household is aged over 55 years and when the head is relatively risk averse. A household demands more debt when its income is higher, when it owns its own home, when the family size is larger and the head is working. It was also found that the result of being black increases the probability of being credit constrained but it does not increase a household's demand for debt. This is therefore a result found consistently for the late 1980s through to the early 1990s. In addition to these results which are in common with earlier papers for earlier periods it was also found that if a household has a large expected expenditure in the next few years it demands a larger amount of debt now, that the higher the net worth of a household the less debt it desires and that a household's expectations concerning future interest rates has no effect on its demand for debt.

Related Research Data

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