Credit Card Liquidity

Abstract

This paper considers the growth of credit card liquidity in explaining household credit card use. With data from the 2004 Survey of Consumer Finances we identify key predictors of new credit card charges for households. The data suggest credit card spending appears motivated by low-cost access to credit card liquidity. This is consistent with previous research arguing credit card use is rational, but is contrary to research that emphasizes liquidity constraints in explaining credit card behavior. New credit card charges are primarily predicted by the amount of available liquidity on the card (the limit minus the balance) for all households, controlling for income and other factors. The data also show that credit card spending is primarily done by the more educated and wealthier households, at all income quintiles, and that liquidity constraints have little to do with credit card use.

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