

Thy Neighbors Misfortune: Peer Effects In Consumption

Sumit Agarwal

Georgetown University

Abstract:

We study the credit and debit card spending response of individuals whose neighbors living in the same building experience bankruptcy. We document that the neighbors' monthly card consumption decreases by 3.4% over the one-year post-bankruptcy period—an annual decrease equivalent to 7% of monthly income. The absence of consumption response among individuals in immediately adjacent buildings provides validation of our identification. The consumption response is more pronounced for consumers with greater peer awareness or financial sophistication, and is equally strong in the conspicuous and non-conspicuous goods.