Event Study Analysis of Consumer Behavior: Evidence from Credit Card Spending in Korea

Young Hwa Seok

Charles H. Dyson School of Applied Economics and Management
Cornell University, B38 Warren Hall, e-mail: younghwa.seok@gmail.com

Abstract
This paper examines how two “shocks” in South Korea affected credit card spending. The first shock is a regulatory shock: In South Korea, credit card holders can subscribe to a messaging service that sends a cell phone text message whenever a credit card purchase is made. Since September 2012, Korean policymakers have required that these text messages also include information on unpaid debt balances. Comparing credit card spending by users who subscribe to this messaging service with that by users who did not (and, thus, did not experience a change in messaging service), I find that reminders of unpaid debt balances reduce credit card spending by 1%, past due balances by 0.5% and installment purchases by 0.5%. These findings suggest that simple reminders of unpaid debt balances can lead to more responsible spending. The second shock is of a more emotional nature: In April 2014, a South Korean ferry capsized while carrying 476 people, mostly secondary school students from the city of Ansan. The deaths of 304 people in the disaster devastated the entire country. I find that spending dramatically decreased after the disaster, in particular for people living in the city of Ansan. These findings suggest that sadness can reduce consumer spending.

Key words: credit card, consumer behavior, regulation, reminder

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