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Endogeneity and Price Sensitivity in Consumer Lending (joint with Robert Phillips and Garrett van Ryzin)

Abstract: Endogeneity occurs in loan pricing when a lender uses unrecorded borrower characteristics that are correlated with price-sensitivity in setting the price. Endogeneity can lead traditional regression approaches to underestimate price elasticity. We use two sources of auto loan data: one from an online lender and one from an indirect lender to test for endogeneity. We present our results as well as recommendations for how to detect and control for endogeneity in the estimation process.