

Is It Interest Rate or Loan Amount to which Borrowers Are More Sensitive?
A Conjoint Analysis on Financial Loans

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Abstract

This paper, unlike previous studies on consumer loans, will conduct a Conjoint analysis where general consumers are asked to answer survey questions about the situations in which they take out a loan based on hypothetical interest rates and loan amounts. Conjoint analysis has a major advantage because it can present a circumstance that could occur in the near future as a hypothetical situation and evaluate potential effects of such a situation. I believe that this paper's analysis method will make a contribution as a viable analysis method for such a loan market so that lenders can flexibly present future pictures. Specifically, the probability of consumer borrowing was qualitatively measured by the Conjoint analysis that presents a variety of interest rate and loan amount combinations in order to determine whether interest rate or borrowed amount is more prioritized to consumers when they take out loan plans. In the analysis, consumer choice behaviors when presented with automobile loan plans were examined.

To mention the conclusion first, as in the study of Dean Karlan & Jonathan Zinman (AER, 2008), the current study found that Japanese borrowers are relatively indifferent to loan amount, but they react more strongly to interest rate and repayment period. On the other hand, this study also found that the type of consumers who do not easily take out loans react more sensitively to borrowed amount, and despite the fact that they react to interest rate, they are indifferent to repayment period.