Transition Pay vs. Liquidity Holdings: A Comparative Analysis on Consumption Smoothing using Bank Transaction Data

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Abstract : This study investigates household financial behaviors during unemployment spells in the Netherlands using high-frequency transaction data through a event study specification integrating propensity score matching. In our specification, we contrasted treated individuals, who underwent job loss, with non-treated individuals possessing comparable financial characteristics. The initial onset of unemployment triggers a substantial surge in income, primarily attributed to transition payments, but swiftly drops post-unemployment, with unemployment benefits covering slightly over half of former salary earnings. Despite a re-employment rate of around half within six months, the treatment group experiences a persistent average monthly earnings reduction of approximately 600 EUR by month. Spending patterns fluctuate significantly, surging before unemployment due to transition payments and declining below non-treated individuals post-unemployment, indicating challenges to fully smooth consumption after job loss. Furthermore, our study disentangles the effects of transition payments and liquidity holdings on spending, revealing that transition payments exert a more pronounced and prolonged impact on consumption smoothing than liquidity holdings. Transition payments significantly stimulate spending, particularly in pin and iDEAL categories, contrasting a much smaller relative spending impact of liquidity holdings.

Keywords : household consumption, transaction data, big data, propensity score matching
Conference Title : ICBEFA 2025 : International Conference on Business, Economics and Financial Applications
Conference Location : London, United Kingdom
Conference Dates : January 23-24, 2025