Macro Roundup Article

Headline: Not Just “Stimulus” Checks: The Marginal Propensity to Repay Debt

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Summary: We define marginal propensity to consume (MPC) as the share of the stimulus payment a household spent, marginal propensity to save (MPS) as the share a household saved, and marginal propensity to repay debt (MPRD) as the share used to pay down their debt. With these measures we document three main facts. First, households used one third of their transfers to pay down debt. This is higher than the average marginal propensity to consume (MPC), which usually takes center stage. Second, households with low net liquid wealth-to-income ratios are more likely to pay down debt and more likely to adjust their net wealth positions. Third, and relatedly, households with lower net liquid wealth-to-income ratios have lower MPCs. We show these two latter facts in the chart below. Note that we define net liquid wealth as the sum of liquid assets minus non-housing debt. For income, we use annual household income.

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