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Unshrouding Effects on Demand for a Costly Add-on: Evidence from Bank Overdrafts in Turkey

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Abstract

The pricing and advertising of tied add-ons and overages have come under increasing scrutiny. Working with a large Turkish bank to test SMS direct marketing promotions to 108,000 existing holders of “free” checking accounts, we find that promoting a large discount on the 60% APR charged for overdrafts *reduces* overdraft usage. In contrast, messages mentioning overdraft availability without mentioning price *increase* usage. Neither change persists long after messages stop, suggesting that induced overdrafting is not habit-forming. We discuss implications for interventions to promote transparency in pricing and advertising, and for models of shrouded equilibria, limited attention, and salience.

Other keywords: contingent charges, deceptive advertising, transaction-linked credit, small-dollar loans, consumer banking, retail banking, deposit accounts

JEL codes: D12, D14, G2

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