



## Matteo Benetton

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### QUANTIFYING THE BENEFITS OF FINANCIAL INNOVATION

BY MATTEO BENETTON

The broad research question that we address in this project is: what are the benefits of financial innovation? Our study will quantify the benefits for consumers of introducing a new financial contract in the mortgage market combining new data from Israel, an innovative identification strategy, and a theory-based model of consumer choice. We plan to develop a framework to study theoretically and empirically the benefits from mortgage products combining the characteristics of fixed rate mortgages (FRMs) and adjustable rate mortgages (ARMs), which we label Mixed Rate mortgages (MRMs). We develop a simple structural model of mortgage demand (based on a discrete choice framework with differentiated products and heterogeneous borrowers) and estimate its parameters using the data provided by a commercial Bank in Israel. Finally, the project will be able to assess how much better off US mortgage takers would be if they were offered the same variety of mortgage contracts available to households in Israel.