Banking on Inattention*

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Abstract

We show that banks' deposit market power originates from *depositor inattention*. Using transaction-level data on millions of U.S. depositors, we find that income with unknown timing stays in bank accounts about twice as long as paychecks with known timing. We measure depositor inattention as the gap in response times between unscheduled and scheduled income, and document that inattention dampens depositors' sensitivity to changes in deposit spreads. We scale this measure population-wide by modeling it as a function of demographic and socioeconomic characteristics. Guided by these findings, we develop a theory where banks balance higher spreads against spread-sensitive outflows from inattentive depositors. The theory predicts, and the data confirm, that banks with more inattentive depositors set lower rates and pass through policy-rate changes less. Further, we estimate deposit flow sensitivity with a new leave-one-out instrument based on geographic inattention variation. Leveraging these empirical estimates, we calibrate banks' deposit franchise value and clarify how digital banking and monetary policy affect bank funding.

JEL Codes: G2, E5, G4.

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1. Introduction

What makes banks' trillion-dollar, low-cost deposit base sustainable? Why do deposit spreads widen when monetary policy tightens? Seminal work emphasizes banks' market power in deposit markets (Duffie and Krishnamurthy 2016, Drechsler, Savov, and Schnabl 2017), but the origin of this market power remains an open question. Our paper fills the gap with evidence and theory of banking on inattention. We show that depositors are inattentive, and inattention modulates spread-sensitive deposit flows, giving banks market power. As a result, banks set positive deposit spreads, and pass through monetary policy incompletely.

We highlight three contributions. First, we present new evidence of depositor inattention, and build a scalable inattention measure as a function of socioeconomic and demographic characteristics. Second, we propose and test a theory of *temporal monopoly* in deposit pricing, where banks trade off wider deposit spreads today against a smaller future deposit base as spread-sensitive, inattentive depositors withdraw. When monetary policy tightens, banks discount the future more, creating an incentive to widen deposit spreads today to boost current profits—an effect amplified by depositor inattention. Finally, we calibrate deposit franchise value and clarify how digital banking and monetary policy affect bank funding.

We start with new evidence of depositor inattention. Using transaction-level data on 26 million U.S. checking and savings accounts, we compare depositors' responses to scheduled income with responses to unscheduled income for which the deposit date is unknown ex ante. Under a full-attention, frictionless benchmark, idle balances from both income sources would be reallocated equally quickly into higher-yield assets. In the data, however, unscheduled income (e.g., tax refunds) remains in low-interest bank accounts about twice as long as scheduled paychecks, indicating inattention. We use this gap in reaction times to construct an inattention measure that varies across individuals. For many depositors, we cannot estimate this gap directly because the transaction data are too sparse. We therefore train a statistical model on the sample of depositors whose inattention we can measure, using socioeconomic and demographic characteristics as predictors. We then apply the model out of sample to obtain a population-wide measure of inattention, which we aggregate to construct a bank-level measure of depositor inattention.

We next examine whether depositor inattention affects banks. We show that inattention dampens deposit flow sensitivity to the spread between the policy rate and deposit rates—a key margin in banks' rate-setting decisions. Specifically, tracking deposit balances from one week before to one week after each FOMC announcement, we find that inattentive depositors withdraw less than attentive depositors after rate hikes.

To analyze the implications of depositor inattention on deposit pricing, we develop a dynamic model where a bank prices deposits facing inattentive depositors. The model generates below-policy-rate deposit rates and incomplete monetary pass-through, and makes new, testable predictions on deposit rates and pass-through across banks with different depositor inattention. The model elucidates that, in setting the deposit rate, the bank faces an intertemporal trade-off: a lower deposit rate raises the profit margin but leads to larger outflows, which results in a smaller depositor base in the future. With more inattentive depositors, outflows are less responsive to the spread between the policy rate and the deposit rate, and thus the bank sets a lower deposit rate. If depositors are very inattentive, the bank posts a zero deposit rate, which is assumed to be the lowest possible.[1] If the policy rate rises, the bank discounts future profits more and thus the outflow consideration becomes less important. As a result, the bank sets a higher deposit spread under a higher policy rate to increase current profits. Additionally, we show that the monetary pass-through to deposit rates is lower for banks with more inattentive depositors.

We find supportive evidence across banks. A bank with a one-standard-deviation higher depositor inattention sets a 10 basis points (bp) lower rate on savings accounts under a 2.2% policy rate in the last quarter of 2019. If the policy rate goes up by 1%, this bank raises the deposit rate by 3 bp less.

The inattention-based rate-setting framework also motivates a new instrument for estimating deposit flow sensitivity—a key input for the deposit franchise value calibration that is often obscured by endogenous rates.[2] Because branch rates in small, peripheral

[1]Banks generally refrain from quoting negative rates to retail depositors. One primary reason is that depositors can always shift into cash that earns a zero nominal return. In the U.S., deposit rates have never dropped below zero. International evidence suggests that even when policy rates turn negative, deposit rates cluster at the zero lower bound (Heider, Saidi, and Schepens 2019).

[2]Previous work addresses the endogeneity of deposit rates using bank-specific monetary policy pass-

counties follow the bank's rates set in larger markets (Drechsler, Savov, and Schnabl 2017, Begenau and Stafford 2023), and because inattention varies spatially, we instrument a bank's deposit spread in peripheral counties using the inattention of *other* counties served by the same bank—a leave-one-out design in the spirit of DellaVigna and Gentzkow (2019). We show that when deposit spread rises by 1%, a one-standard-deviation rise in depositor inattention reduces deposit outflow by about 0.54%.

In addition, we enrich the model to revisit the documented sluggish rate adjustments following monetary policy changes, and banks' asymmetric responses to policy rate cuts and hikes. We model short-run sluggishness in resetting deposit rates following Calvo (1983). Under a higher policy rate, more banks set positive deposit rates that depend on the policy rate. Our model predicts that a larger share of banks will adjust in response to a policy rate change starting from a higher policy rate, regardless of the direction of the rate change. Previously, Driscoll and Judson (2013) and others show that rate cuts trigger more banks to adjust than rate hikes. We show empirically that the asymmetry is driven by the level of the prevailing policy rate, since rate cuts tend to start with a higher level of the policy rate.

Using the empirical estimates of deposit beta, spread, and flow sensitivity with respect to inattention, we calibrate deposit franchise value (DFV), the discounted sum of all future profits a bank earns from paying below-policy deposit rates on its deposits. The level and comparative statics of DFV bear important policy implications, but are hard to analyze empirically, given limited time-series variation in the policy rate. We calibrate the model and estimate that U.S. banks collectively derive about $2.6 trillion DFV from the $5 trillion non-interest-bearing (NIB) deposits and $10 trillion savings deposits by the end of 2022.

We discuss the interest rate risk in deposit franchise and the impact of digital banking on banks' deposit funding. First, we demonstrate that DFV is *non-monotonic* in the policy rate. Consistent with Drechsler, Savov, Schnabl, and Wang (2025), we show that when the policy rate is low, DFV has a negative duration. In this case, the bank sets a zero deposit rate. An increase in the policy rate raises the profit margin more than it accelerates outflows

through (Egan, Hortaçsu, and Matvos 2017), a Berry-Levinsohn-Pakes-style instrument based on rival banks' characteristics (Egan, Lewellen, and Sunderam 2022), and supply-side shifters such as salaries and non-interest expenses (Xiao 2020, Whited, Wu, and Xiao 2022).

and increases the discount rate, leading to a higher DFV. However, when the policy rate is high, the duration of DFV turns positive: as the bank optimally sets a positive deposit rate to maximize DFV, balancing between the profit margin and outflows, the envelope theorem suggests that the duration of DFV is only driven by the discount rate. This highlights the dual roles of the policy rate in deposit pricing—the policy rate not only sets the bank's cost of deposit funding, but also serves as the discount rate for the bank's future profits from deposits. As the discount rate rises, DFV falls.

Beyond this baseline result, we show that realistic features, most notably the fixed operating costs for servicing existing deposits (Drechsler, Savov, and Schnabl 2021, DeMarzo, Krishnamurthy, and Nagel 2024), can flip the duration of DFV from positive to negative even when the bank sets a positive deposit rate. Across banks with similarly inattentive depositors, those with higher fixed costs for servicing existing deposits are more likely to have a negative duration at a given policy rate. In the aggregate, with moderately low fixed operating costs for servicing existing deposits, when the policy rate goes up, more banks shift into having a positive DFV duration, highlighting time-varying interest rate risk in deposit funding (Blickle, Li, Lu, and Ma 2025).

Finally, depositor inattention grants market power to banks, and innovations in digital banking that raise attention will naturally erode it. Quantitatively, a 10% increase in attention—such as from apps that prompt easier, more frequent monitoring—reduces DFV by about 6.6% for savings deposits and 8.4% for non-interest-bearing deposits, implying an aggregate loss of roughly $186 billion. Moreover, we find that attention covaries with demographics, suggesting that the impact of digital banking may bear important distributional consequences across demographic segments.

Literature and contributions. Deposits are the cornerstone of monetary aggregates and the primary source of bank funding. An extensive banking literature points out several puzzling facts regarding deposit pricing: deposit rates sit well below the policy rate, monetary policy pass-through to deposit rates is incomplete, rate adjustments are asymmetric after hikes and cuts, and deposit flows are sticky (e.g., Diebold and Sharpe 1990, Hannan and Berger 1991, Neumark and Sharpe 1992, Driscoll and Judson 2013). Prior papers attribute

these to search frictions, local market power, deposit size, and depositor sophistication (Duffie and Krishnamurthy 2016, Drechsler, Savov, and Schnabl 2017, d'Avernas et al. 2023, Argyle et al. 2024, Fleckenstein and Longstaff 2024, Yankov 2024). We show that depositor inattention is an important source of banks' market power and helps explain these puzzles.

Our analysis of depositor inattention contributes to a large literature in which agents economize on attention, leading to spells of inaction and infrequent adjustments in consumption and portfolio choices (e.g., Duffie and Sun 1990, Gabaix and Laibson 2002, Reis 2006, Abel, Eberly, and Panageas 2007, 2013, Alvarez, Guiso, and Lippi 2012, Andersen, Campbell, Nielsen, and Ramadorai 2020). In particular, prior work in asset pricing highlights that infrequent adjustments affect risk premia, volatility, and monetary transmission (Duffie 2010, Chien, Cole, and Lustig 2012, Lu and Wu 2023). We extend this line of research by analyzing the implications of infrequent adjustments on the demand, supply, and pricing of deposits. We show that depositors adjust their risk-free transaction accounts sporadically, and such inattention dampens the sensitivity of deposit flows to spreads, granting banks monopoly power in deposit markets.

Highlighting banks' monopoly power, we offer a new, supply-side perspective on *convenience yield*, the systematic spread investors pay for holding safe and liquid assets (Krishnamurthy and Ma 2025). Convenience yields vary with the policy rate. The literature rationalizes this with a state-dependent demand for convenience in safe assets, driven by transaction needs, search frictions, limited pledgeability, safe asset scarcity, hedging demand, and limited substitutability (e.g., Baumol 1952, Tobin 1956, Miller and Orr 1966, Poterba and Rotemberg 1986, Kiyotaki and Wright 1993, Holmström and Tirole 1998, Lagos and Wright 2005, Krishnamurthy and Vissing-Jorgensen 2011, Nagel 2016, Jiang, Krishnamurthy, and Lustig 2021, Acharya and Laarits 2023, Krishnamurthy and Li 2023). We present a complementary view of deposit spread, i.e., the convenience yield for holding low-interest deposits over close substitutes such as money market funds, which centers on financial intermediaries (He and Krishnamurthy 2013): facing inattentive depositors, banks optimally set larger spreads when monetary policy tightens.

The evidence and theory of banking on inattention add to the growing literature that links

banks' funding costs and interest risk (e.g., Diamond and Dybvig 1983, Gorton and Pennacchi 1990, Kashyap, Rajan, and Stein 2002, Hanson, Shleifer, Stein, and Vishny 2015, He and Manela 2016, Pérignon, Thesmar, and Vuillemey 2018, Drechsler, Savov, and Schnabl 2021, Gomez, Landier, Sraer, and Thesmar 2021, Artavanis et al. 2022, Begenau and Stafford 2023, Egan, Lewellen, and Sunderam 2022, DeMarzo, Krishnamurthy, and Nagel 2024, Hanson et al. 2024, Llambias and Ordonez 2024, Jiang, Matvos, Piskorski, and Seru 2024, Bolton, Li, Wang, and Yang 2025). In this line of work, our paper is closest to Lu, Song, and Zeng (2025), Blickle, Li, Lu, and Ma (2025), and Egan et al. (2025). Lu, Song, and Zeng (2025) emphasize that increasingly convenient payment technologies erode stickiness in operational deposit balances needed for daily payments. Blickle, Li, Lu, and Ma (2025) build a dynamic bank run model with heterogeneity in depositors' preferences for convenience and highlights time-varying bank run risk. Egan et al. (2025) estimate a quantitative dynamic model with sticky deposits and bank competition. We attribute deposit stickiness to inattention, analytically characterize its banking implications, and clarify interest rate risk in DFV.

The bank-level empirical estimates on rate setting and flow sensitivity further allow us to clarify how digital banking may affect banks' deposit funding. Complementing recent work (Erel, Liebersohn, Yannelis, and Earnest 2023, Koont 2023, Koont, Santos, and Zingales 2024, Jiang, Yu, and Zhang 2024), we show that digital nudges can weaken banks' temporal monopoly by increasing depositors' attention, and quantify the resulting decline in DFV.

Methodologically, we introduce a new approach to measure inattention that extends beyond the banking context. Using large-scale transaction-level data and machine learning, we measure in-sample inattention and project it out-of-sample as a function of demographic and socioeconomic characteristics. This approach delivers a scalable, population-wide measure of inattention, complementing existing approaches in behavioral economics, including experiments (e.g., Kahneman 1973, Gabaix, Laibson, Moloche, and Weinberg 2003), structural estimates from revealed preferences (e.g., Abaluck and Adams-Prassl 2021), and surveys (see DellaVigna 2009 and Gabaix 2019 for reviews). While we center on banking, a population-wide inattention measure has broad relevance in macro-finance.[3]

[3]Inattention shapes mortgage refinancing decisions (Andersen, Campbell, Nielsen, and Ramadorai 2020, Berger, Milbradt, Tourre, and Vavra 2024a,b, Byrne et al. 2023, de Silva and Mei 2025), expectations

The rest of the paper is organized as follows. Section 2 describes the datasets. Section 3 documents new facts on depositor inattention. Section 4 develops an analytical model of a bank's temporal monopoly. Section 5 introduces the statistical model to predict inattention population-wide, which is then used to test the model's cross-sectional predictions. Section 6 calibrates our model with empirical estimates and analyzes the deposit franchise value and its comparative statics. Section 7 concludes.

2. Data

Our empirical analysis integrates five complementary datasets. (i) Transaction-level bank statements from a leading analytics firm track checking and savings accounts for 26 million U.S. depositors between 2014 and 2022, allowing us to construct an individual inattention index. (ii) IRS ZIP Code-income bracket level tax filings merged to 2010 Census ZCTA5 demographics provide nationwide socioeconomic covariates through county identifiers for projecting inattention out of sample from 2007 to 2021. (iii) The FDIC Summary of Deposits (2007–2021) gives annual branch-level deposit sizes for each bank, enabling county-level aggregation of deposit stocks. (iv) FFIEC Call reports (2007–2021) supply quarterly bank-level deposit flows and deposit rates. (v) Weekly RateWatch surveys (2006–2022) record bank-reported yields on $25K money-market deposit accounts, for which we aggregate the data to bank-week averages and consider only the direction (sign) of each weekly rate change. Focusing on the sign, rather than the level, insulates our analyses on rate adjustment dynamics from systematic bank-level reporting bias on rates.

2.1. Transaction-Level Data on Depositors

We analyze checking and savings accounts for over 26 million depositors across depository institutions—including major national banks, numerous regional banks, and credit unions—to construct and validate a depositor inattention measure and link it to deposit pricing.

These records contain transaction-level details and balances for each depositor's accounts

of inflation and unemployment (Coibion and Gorodnichenko 2011, Weber, d'Acunto, Gorodnichenko, and Coibion 2022, Garmaise, Levi, and Lustig 2024, Piccolo and Gorodnichenko 2025), monetary transmission (Gabaix 2020, Eichenbaum, Puglisi, Rebelo, and Trabandt 2025), and central bank communication (Coibion, Georgarakos, Gorodnichenko, and Weber 2023, Bauer, Pflueger, and Sunderam 2024), with important welfare and efficiency implications (Farhi and Gabaix 2020, Hébert and La'O 2023, Angeletos and Sastry 2025).

across banks. The granularity of the data allows us to track how depositors respond to different income events by source. We also infer individual characteristics that may shape inattention, such as student loan payments, mortgage payments, entrepreneur status,[4] parental status, marital status, investor status, retirement status, unemployment status, and wage-earner status—along with the level and share for each source of income. Inference follows a rule-based, dictionary approach: we manually standardize transaction strings and map merchants to a stable taxonomy. Summary statistics are in Table 1.

We briefly illustrate the inference of depositor characteristics via two examples below. First, for parental status, we flag depositors with kids based on spending at children's hospitals and childcare providers, and by receipt of Child Tax Credit (CTC) payments, all identified via inbound ACH patterns (addenda codes, and company names, such as Treasury/IRS CTC disbursements). For the size of CTC, we record depositors' average monthly CTC inflows, excluding internal transfers and reversals. Second, to infer gender, using balanced dictionaries of product categories and keywords commonly coded as feminine (e.g., nail spas) or masculine (e.g., barber shops), we classify a depositor as female when purchases mapped to the feminine dictionary exceed those mapped to the masculine dictionary across associated accounts, and vice versa.

2.2. County-Income-Group Level IRS Tax Filings and County-Level Census Data

To predict inattention out of sample, we use IRS ZIP Code-AGI (adjusted gross income) level filings year by year from 2007 to 2021. The IRS tax filings are representative across the country and allow us to project the inattention measure over time nationwide. We construct socioeconomic and demographic characteristics from Form 1040 that match those observable at the individual level from the transaction-level database; we detail the variable construction in Appendix D. To map ZIP Codes to counties, we merge each year's IRS filings with the USPS ZIP Code-FIPS crosswalk (first-quarter snapshot) obtained from HUD's Office of Policy Development and Research. Additionally, we aggregate 2010 Census ZCTA5 data to derive demographic and socioeconomic information, such as ethnicity, gender,

[4]Our inattention measure requires consistent labor or retirement income (e.g., Social Security); this does not exclude depositors who also run side businesses.

	N	Mean	SD	Median	25th Pct.	75th Pct.
Total Income	13,250,542	67,989.11	222,835.80	6,367.00	1,314.00	29,813.48
Child Credit	1,489,311	14,642.39	143,898.06	4,500.00	1,800.00	10,800.00
Investment Income	8,143,131	37,307.72	144,804.20	2,311.02	100.00	21,218.34
Salary Income	1,184,347	390,217.88	395,916.91	300,258.84	118,012.86	556,676.06
Social Security	2,448,039	46,459.04	63,231.73	21,564.90	5,637.00	63,973.00
Tax Refund	9,248,072	11,267.37	17,747.64	5,454.00	1,976.00	13,678.34
Student Loan	3,562,159	26,536.06	340,776.78	2,460.15	280.00	17,274.79
Mortgage	4,511,473	222,298.67	1,912,789.80	53,456.46	8,951.49	200,332.92
Indicator Variables						
Unemployed	26,521,334	3.64%				
Parent	26,521,334	6.64%				
Single	26,521,334	1.95%				
Female	26,521,334	33.82%				
Male	26,521,334	30.00%				
Entrepreneur	26,521,334	4.63%				

This table summarizes the key depositor-level characteristics derived from our transaction data, available from 2014 to 2022. Monetary variables (Total Income, Child Credit, Investment Income, Salary Income, Social Security, Tax Refund, Student Loan Payment, and Mortgage Payment) are expressed as the annual total per depositor in current dollars, averaged over the years in which the flow is observed. Indicator variables report the share of depositors who, at any point in the sample, are: Unemployed, Parents (if the depositor paid for childcare or received child tax credits), Single, Female, or Entrepreneurs (if the depositors linked to a business or corporate account).

Table 1: Depositor Characteristics

homeownership, and family structure, for each county, including key demographic variables available through Missouri Census Data Center as in Mian, Sufi, and Trebbi (2010).

2.3. County-Level Bank Deposits from FDIC Summary of Deposits

We use the FDIC's annual Summary of Deposits from 2007 to 2021, which reports each bank branch's total deposits, parent bank (RSSDID), and county as of June 30 of the year.

2.4. Bank-Level Rates and Flows from Call Reports

We obtain quarterly non-interest-bearing and savings deposit growth, and calculate the savings deposit rate as interest expense on savings deposits divided by the volume of savings deposits from Call Report filings between 2007 and 2021.

2.5. Branch-Level Deposit Rates from RateWatch

Our RateWatch sample reports the annual percentage yield for new deposit quotes each week, beginning in 2006. We follow the Drechsler, Savov, and Schnabl (2017) convention

focusing on the most widely reported product in the sample period, the $25K money-market deposit accounts, then aggregate branch observations up to the bank-week level using weekly averages and compute the weekly changes in reported deposit rates. Note that we only use the *sign* of weekly rate changes to analyze the transitional dynamics of bank rate setting. This shields our analysis from any systematic bank-level reporting bias on rate levels.

3. Evidence and Measure of Depositor Inattention

We begin by constructing an empirical measure of deposit stickiness, which we find to be most consistent with inattention. We show that income with known timing is drawn down from bank accounts quickly, whereas income with unknown timing remains idle on balance twice as long. Motivated by this fact, we develop a measure of inattention using local projections of the gap in response times that sidesteps censoring from overlapping income events.

3.1. Reactions to Scheduled and Unscheduled Income

What is inattention? Kahneman (2003, 2011) characterizes attention through reactions to different tasks: reactions to routine tasks are fast, whereas responding to non-routine tasks requires attention. Drawing on this distinction, we assess attention to liquidity by contrasting depositors' responses to scheduled versus unscheduled income: scheduled income can be pre-programmed, while unscheduled income demands monitoring and optimization. We define *scheduled income* as income with a known receipt date ex ante (e.g., payroll on a fixed schedule); *unscheduled income* is income for which the exact receipt date is unknown beforehand (e.g., tax refunds). When depositors' attention to liquidity is limited, owing to behavioral bias or rational inattention, the pre-programmable scheduled income will be reallocated quickly, whereas unscheduled income will remain in accounts until attention is allocated to deposit management.

Ideally, we would estimate depositor reactions to scheduled and unscheduled income controlling for both idiosyncratic, individual fixed effects, and the trend in income growth over time. The dimensionality of our data—millions of depositors observed across thousands of pay cycles—makes such a specification infeasible. We adopt a two-step approach instead:

first, we compute each depositor's cumulative net flow around every income payment and scale it by the corresponding payment amount in line with Baugh, Ben-David, Park, and Parker (2021). We then estimate the impulse response functions of the percentage changes in these normalized flows, for scheduled and unscheduled income events separately.

To start with, for each account of depositor i and income type j, we compute the daily cumulative net flows of the account over the 14-day estimation window,

$$f_{ijt}^{\tau} = \sum_{k=0}^{\tau} (\text{inflows}_{ij,t+k} - \text{outflows}_{ij,t+k}), \quad 0 \leq \tau \leq 13,$$

where $\tau = 0$ corresponds to the event date and event time $\tau = 1, 2, \ldots, 13$ represent the subsequent dates to avoid overlapping events (given that the majority of labor income is disbursed biweekly or monthly).[5] Income varies in size; we scale these flows by the event-specific income s_{ijt}, and obtain a *normalized flow*: $F_{ijt}^{\tau} = \frac{f_{ijt}^{\tau}}{s_{ijt}}$. For each event time τ, we aggregate the normalized flows to compute depositor i event type j specific averages $\overline{F_{ij}^{\tau}}$, and the standard deviations $\sigma\left(F_{ij}^{\tau}\right)$.[6]

Second, separately for each income type j, we estimate the impulse response function:

$$\overline{F_{ij}^{\tau}} = \sum_{\tau=0}^{13} \beta_j^{\tau} \mathbf{I}^{\tau} + \delta_i + \varepsilon_{ij},$$

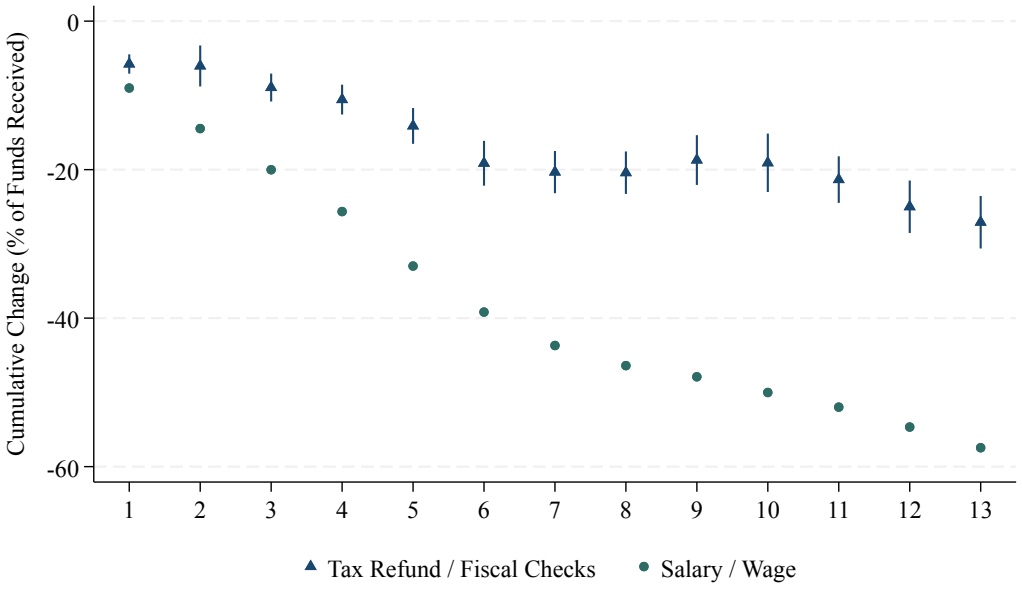
where $\overline{F_{ij}^{\tau}}$ is depositor i's average normalized flow for income type j at event time τ, $\mathbf{I}^{\tau}$ is a dummy variable for event time τ, δ_i represents depositor-specific fixed effects, and ε_{ij} is the error term. Coefficients β_j^{τ} for each event type j trace the cumulative effect of income on balance over event time τ.

Figure 1 shows that on average, depositors deplete half of their scheduled labor income in

[5] Although depositors often hold multiple accounts, we observe that most depositors receive any given income type j in a given month t in one primary account. For clarity, we therefore suppress the account subscript and pool each depositor's impulse responses across all their accounts.

[6] We report results from weighted least squares in the paper because under heteroskedasticity, weighted least squares help in two fronts: first, it yields the best linear unbiased estimator, and second, it shifts how each depositor contributes to the fit based on the precision of their individual-level estimates as noisier estimates have a smaller influence (Greene 2012). The results are robust to using unweighted, ordinary least squares.

two weeks after receiving the paychecks, whereas for unscheduled income, that is, tax refund and fiscal checks, about 75% of the income still lingers on the account after two weeks.



The x-axis represents the number of days after the receipt of funds. The y-axis shows the cumulative change in balance as a *percentage* of the funds received in the corresponding bank account.
We compare the impulse responses for two income sources, salary/wages and tax refunds/fiscal checks, using a panel of 26 million depositors observed at the transaction-level between 2014 and 2022. For each individual i and event type j, we first compute the cumulative net flows over a 14-day window, f_{ijt}^{τ} for $0 \leq \tau \leq 13$, where $\tau = 0$ denotes the event date and $\tau = 1, \ldots, 13$ represent subsequent dates. These flows are scaled by the event-specific income s_{ijt} to yield normalized flows across time, $F_{ijt}^{\tau} = f_{ijt}^{\tau}/s_{ijt}$, from which we compute depositor-event type averages $\overline{F_{ij}^{\tau}}$ and their standard deviations $\sigma\left(F_{ij}^{\tau}\right)$. We then estimate the IRF by regressing $\overline{F_{ij}^{\tau}}$ on event-time dummies with depositor fixed effects, i.e., $\overline{F_{ij}^{\tau}} = \sum_{\tau=0}^{13} \beta_j^{\tau} \mathbf{I}^{\tau} + \delta_i + \varepsilon_{ij}$, using weighted least squares with weights $w_{i\tau j} = 1/\sigma\left(F_{ij}^{\tau}\right)^2$. Due to computational limits with the large amount of depositor fixed effects, the graph plots β_j^{τ} estimated using a 1-in-100 random sample (sample size is 241,867 depositors); standard errors are clustered at the depositor level and confidence intervals are constructed via 500 bootstrap replications.

Figure 1: Cumulative net balance changes upon receipts of funds

Consumption responses. The permanent income hypothesis (PIH) implies a low marginal propensity to consume (MPC) out of transitory income: in a fully rational benchmark, households consume only the return of a one-time inflow. Figure 1 finds that withdrawals following tax refunds and fiscal checks exceed this benchmark. Nevertheless, a potential concern is that our scheduled–unscheduled comparison might simply reflect heterogeneity

in MPC across income types. To assess this, Appendix Figure A-2 compares MPCs for tax refunds and salary. Consistent with Baugh, Ben-David, Park, and Parker (2021), tax refunds are associated with high MPCs, both in consumption categories identified from transaction labels and in restaurant spending, suggesting behavioral "splurging" after unscheduled inflows. Because MPC out of refunds is higher, MPC considerations alone would predict faster—not slower—withdrawals after refunds, contrary to Figure 1.

Conceptually, it is worth noting that we study the *allocation across safe assets* rather than the consumption-savings margin emphasized in the MPC literature (for reviews, see Parker 2011, Ramey 2025). To further clarify the connection between our focus and the MPC literature, note that in the frictionless benchmark, each dollar of income is either consumed (C), parked in low-yield deposit accounts that provide immediate liquidity (B), or invested in risky or safe assets with competitive yields such as money market funds (S), with $C + B + S = 1$. The MPC literature measures C; we measure the half-life of B. Under full attention, the positive spread between money market funds and deposits implies that any portion of $1 - C$ not needed as liquidity buffer should be swept into S.[7]

Recurring payments. Differences in adjustment speeds may partly reflect the use of automatic (pre-authorized) payments such as card-on-file recurring charges, credit card payments, and ACH brokerage sweeps. Conceptually, this is consistent with our inattention interpretation of the gap in half-lives, since the purpose of lining up recurring payments with scheduled income could be to economize on attention. Further, we show in Appendix E.1 that if we split depositors by their share of recurring outflows, the results are similar—in both subsamples, adjustments to tax refunds remain slower than to salary, which is drawn down with similar speeds. This suggests that having recurring payments or not is unlikely to drive the differential reactions.

Rational inattention and adjustment costs. Our evidence indicates that depositors adjust their deposit balances only intermittently, in line with inattention. We remain agnostic about the underlying microfoundations. Depositor inattention, interpreted as infrequent

[7]Indeed, if the only purpose of B is to provide liquidity for immediate future consumption, then a higher MPC out of permanent income should imply a higher B, the opposite of what we observe.

monitoring of risk-free transaction accounts, may reflect optimal inattention, rationalized by transaction costs (Duffie and Sun 1990, Abel, Eberly, and Panageas 2007, 2013 and Andersen, Campbell, Nielsen, and Ramadorai 2020 among others). Note that if the transaction cost is a *fixed* adjustment cost, then it follows that larger inflows trigger faster adjustments. To test this alternative, in Appendix E.1 we repeat our analysis by splitting the sample by whether average salary exceeds average tax refunds. Figure A-3 shows that depositors adjust more slowly to tax refunds than to salary, even when refunds are larger in size on average. This result is inconsistent with a fixed adjustment cost explanation, even if such a fixed cost varies across individuals.

Regardless of labeling—behavioral or rational inattention—the slow response of unscheduled inflows evidences deposit stickiness, which we demonstrate is important for deposit pricing theoretically and empirically. In particular, for our banking implications, what matters is the *variation* in the inattention measure we introduce next across the population, not its average level. And as we will show next, such a cross-sectional variation is mostly driven by the variation in the response time to unscheduled income.

3.2. Measuring Depositor Inattention

The contrast in depositors' reactions to scheduled and unscheduled income (Section 3.1) suggests a natural depositor-level measure of inattention: the difference in statistical half-lives, i.e., the extra days it takes a depositor to deplete half of an unanticipated income event relative to a scheduled one. However, this measure is inherently censored: it cannot capture depositors whose reaction times exceed our observation window before the next income arrives. For example, most wage earners and retirees in the U.S. receive paychecks and Social Security monthly or biweekly. To avoid overlapping with the next biweekly or monthly pay cycle, in constructing the statistical half-life, one needs to cap the estimation window to at most 14 days, yet many individuals may not check or adjust their balances for months. As a result, those with the longest delays—the most inattentive depositors—are dropped from this calculation.

To project the half-life estimates beyond 14 days, we apply individual-level local

projections up to 180 days:

$$y_{i,t+h} - y_{i,t-1} = \alpha_{i,s,h} + \beta_{i,s,h} I_{i,s,t} + \beta^{L}_{i,s,h} L.I_{i,s,t} + \rho_{i,s,h}(y_{i,t-1} - y_{i,t-2}) + \varepsilon_{i,s,t,h},$$

where $y_{i,t+h}$ is the h-period account balance for depositor i, $\beta_{i,s,h}$ captures the dynamic effect at horizon h of an income event of type s with magnitude $I_{i,s,t}$, and additionally the size of the last income event of type s, lagged income event $L.I_{i,s,t}$. We include the lagged balance difference $(y_{i,t-1} - y_{i,t-2})$ to account for persistence in balances or time-varying confounders.[8] Income events are indexed by type s, which include tax refunds and fiscal checks for unscheduled income events, and salary and social security income for scheduled income events. We run these local projections separately for each depositor, using an estimation window of 180 days for each depositor (i.e., $h \leq 180$).

To capture depositor inattention, we first compute the *half-life* of an income event's effect on balances. From the period-by-period local projections above, the estimation horizon h represents the number of periods ahead at which we measure the change in depositor i's account balance following an income event. We define the half–life for unscheduled events, $\text{HL}_i^{\text{unexp}}$, as the smallest h such that $\beta_{i,s,h} \leq 0.5\,\beta_{i,s,0}$, i.e., the time it takes for the effect to decay by at least one half. Note that if a depositor has $\beta_{i,s,0} \notin (0, 1]$, the income flow is either fully transferred out or is not the main event at the time of occurrence, in which case we exclude these depositors. We define HL_i^{exp} analogously for scheduled income.

Figure 2 plots the distribution of the half-lives by type of income. Half-lives from scheduled income (salary and Social Security) average about 6 days, whereas half-lives from unscheduled income (tax refunds and fiscal checks) average about 25 days.

We then measure the depositor-level inattention using the difference in half–lives between unscheduled and scheduled income, $\Delta\text{HL}_i = \text{HL}_i^{\text{unexp}} - \text{HL}_i^{\text{exp}}$. By construction, ΔHL_i captures each depositor's relative sluggishness in responding to unscheduled versus scheduled income, where the responding time to scheduled income serves as a depositor-level baseline

[8] In alternative specifications, we also include a deterministic trend to capture potential changes over time, and the prevailing 30-day flow volatility $\delta_{i,t}$ at time $t-1$; the inattention measure is robust to the additional controls.

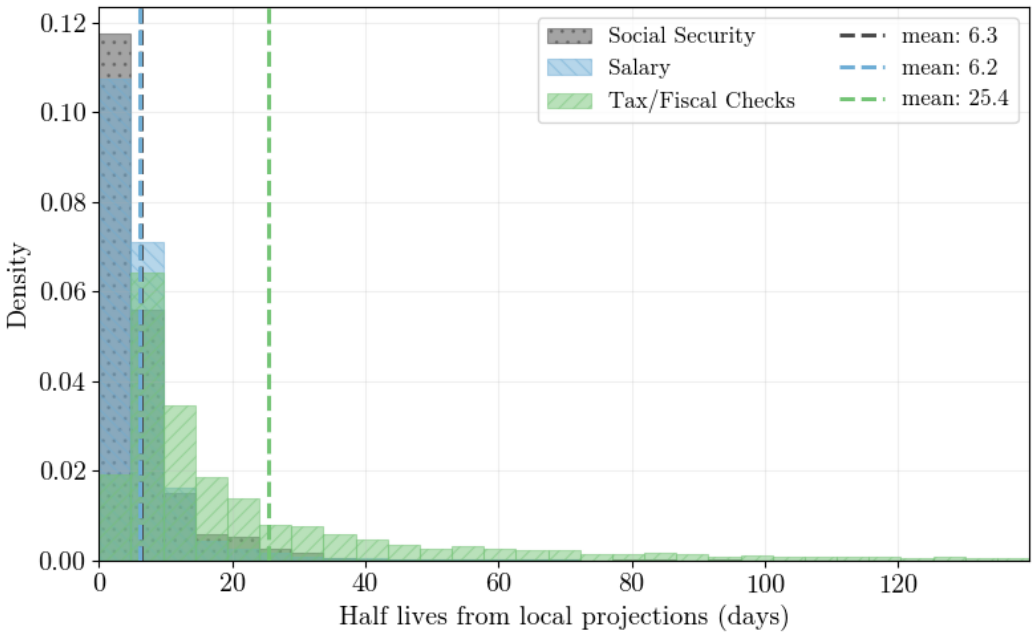


Figure 2: Distribution of half-lives for scheduled and unscheduled income

We compute half-lives via depositor-level local projections up to $h \leq 180$ days: $y_{i,t+h} - y_{i,t-1} = \alpha_{i,s,h} + \beta_{i,s,h} I_{i,s,t} + \beta^{L}_{i,s,h} L.I_{i,s,t} + \rho_{i,s,h}(y_{i,t-1} - y_{i,t-2}) + \varepsilon_{i,s,t,h}$, where s indexes salary/Social Security (scheduled) and tax/fiscal checks (unscheduled). For each s, HL^{s}_{i} is the smallest h with $\beta_{i,s,h} \leq 0.5\,\beta_{i,s,0}$; cases where $\beta_{i,s,0} \notin (0,1]$ are excluded. Inattention is $\Delta\text{HL}_i = \text{HL}^{\text{unexp}}_{i} - \text{HL}^{\text{exp}}_{i}$. We use local projections, instead of statistical half-lives to project half-lives up to 180 days to mitigate censoring from biweekly/monthly pay cycles.

that might be due to liquidity constraints. We quantify the depositor-level inattention by ranking ΔHL_i across depositors. The difference in half-lives, ΔHL_i, averages 19 days, with a median of 7 and a standard deviation of 30.

In Section 5, we aggregate the depositor-level inattention to county-income-group level, and use demographics from IRS tax filings and Census to train a predictive algorithm that extends this in-sample inattention measure nationwide.

3.3. Depositor Inattention and Rate Sensitivity Around FOMC Announcements

Depositor inattention is an important factor that affects depositors' reactions to monetary news. We check the weekly deposit flows out of bank accounts for individual depositors before and after FOMC announcement weeks. These frequently used transactional accounts pay minimal interest (about 2 bp on average). For each depositor i, we compute their total deposit balance changes Δm_{iw} as a percentage change from one week before FOMC

announcement (starting Wednesday) to one week after FOMC announcement, and regress Δm_{iw} on target rate changes $\Delta\rho_w$ (in percentage points). We plot individuals' high-frequency deposit flow sensitivity to policy-rate changes against depositor inattention in Figure 3. Inattentive depositors have much smaller deposit outflow compared with attentive depositors, suggesting that inattention is associated with depositors' sensitivity to policy rate changes.[9]

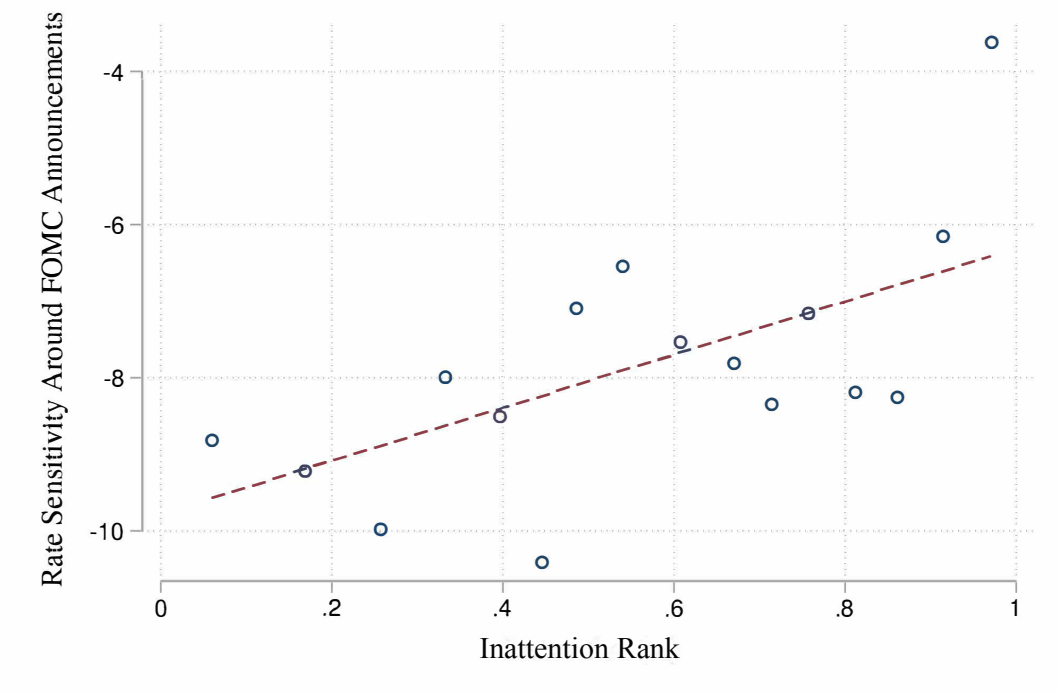


Figure 3: Sensitivity to policy rate changes, two weeks around FOMC announcements

Balance changes are the percentage changes in depositor i's total deposit balances from one week before to one week after the FOMC announcement (week defined from Wednesday to Wednesday), and rate changes are the changes in the target Federal Funds rate at the FOMC meeting (in percentage points). We plot each depositor's high-frequency deposit flow sensitivity, the regression coefficient from $\Delta m_{iw} = \gamma\Delta\rho_w + \varepsilon_{iw}$ against depositor's inattention. The sample period is from 2014 to 2022.

Depositor-level spread sensitivity. Above we highlight that depositors' immediate reactions to FOMC announcements vary with their level of inattention. Appendix E.2 extends this analysis by estimating each depositor's unconditional sensitivity to the deposit spread at monthly frequency. The resulting estimates mirror the announcement-based findings here, though they are modestly smaller in magnitude.

[9]The results are robust to adding consumption volatility (measured as 12-month prevailing standard deviation of spending scaled by average spending).

4. A Model of Banking on Inattention

Depositors are inattentive, and more inattentive depositors are less rate-sensitive. Motivated by these observations, we develop a dynamic banking model in which depositor inattention gives rise to banks' *temporal monopoly* power. The equilibrium pass-through of monetary policy change into the deposit rate is less than one-to-one, and smaller if depositors are more inattentive. The model speaks to banks' deposit franchise value and sheds new light on the short-run rate-adjustment dynamics after monetary policy changes.

4.1. Setup of Temporal Monopoly

We introduce inattentive depositors and set up banks' optimization.

Inattentive depositors. Time runs from $t = 0$ to infinity. Starting from the initial $M_0 > 0$, the deposit balance decays at rate $\tau^{-1}P(\rho - r)$ as

$$\dot{M}_t/M_t = -\underbrace{\tau^{-1}}_{\text{inverse of inattention}} P(\underbrace{\overbrace{\rho_t}^{\text{policy rate}} - \overbrace{r_t}^{\text{deposit rate}}}_{\text{deposit spread}}) \tag{1}$$

Crucially, the decay rate is lower if depositors are more inattentive or if the deposit spread—the difference between the policy rate ρ_t and deposit rate r_t—is lower.[10] We consider withdrawal probability $P(\rho_t - r_t)$ with finite elasticity while remaining agnostic about its microfoundations.[11] This multiplicative form follows if each depositor has an independent Poisson strike with arrival rate τ^{-1} to check their account, and upon checking, they withdraw their entire balance with probability $P(\rho_t - r_t)$ from the bank account to invest in a money market fund that pays the policy rate ρ_t.

We assume that $P(\cdot)$ is an increasing and convex function

$$P(x) = a + \left(\frac{x}{b}\right)^{\gamma}, \ x \in [0, b(1-a)^{1/\gamma}] \tag{2}$$

[10] Since $\tau^{-1}P(\rho_t - r_t)$ is the sufficient statistic governing deposit balance, one can also interpret it as capturing that attention may endogenously rises when the deposit spread goes up.

[11] We adopt a reduced-form specification of deposit demand with a finite elasticity. Such a finite elasticity can arise from several microfoundations, such as cash-in-advance requirements, shopping-time models, search frameworks, or portfolio choice with a convenience yield. Our focus is to show that the demand elasticity is modulated by inattention and discuss its banking implications, rather than distinguishing between microfoundations.

where a, b, γ parametrize the intercept, slope and curvature, with $a \geq 0, b > 0, \gamma > 1$. The restrictions $b > 0, \gamma > 1$ ensure that $P(x)$ is increasing and convex. The convexity of $P(\cdot)$ is required for the concavity of the bank's profits, and it means that the marginal withdrawal probability $P'(x)$ rises in the spread. A positive a allows for the possibility of withdrawal even when the deposit spread is zero, for example, to fulfill consumption needs.

Banks' optimization and deposit franchise value (DFV). Given the law of motion (1) for balance M_t, the bank chooses a sequence of deposit rates $\{r_t \geq 0\}_{t\geq 0}$, subject to the zero lower bound,[12] to maximize its discounted sum of profits, i.e., the deposit franchise value (DFV), over existing deposits

$$\max_{\{r_t \geq 0\}_{t\geq 0}} V_0 \equiv \int_0^\infty \mathrm{e}^{-\rho t} \cdot \overbrace{(\rho_t - r_t)}^{\text{profit margin}} \cdot \overbrace{M_t}^{\text{demand}} \, \mathrm{d}t \tag{3}$$

From the law of motion of the deposit balance (1), bank faces an *intertemporal margin-outflow trade-off*, as a higher profit margin today leads to a faster decay of the deposits, resulting in lower future demand.

Under a constant policy rate, the bank optimally sets a constant deposit rate r,[13] in which case the deposit balance evolves as

$$M_t = \mathrm{e}^{-\tau^{-1}P(\rho - r)t} M_0$$

Plugging this into (3) and expressing the bank franchise value in terms of the deposit spread $x \equiv \rho - r$ gives

$$\max_{x \in [0,\rho]} V_0 = \frac{\overbrace{x}^{\substack{\text{profit margin} \\ = \text{deposit spread}}}}{\underbrace{\tau^{-1}P(x)}_{\text{decay rate}} + \underbrace{\rho}_{\substack{\text{discount rate} \\ = \text{policy rate}}}} M_0 \tag{4}$$

As the bank will never set a negative deposit spread (which leads to a negative profit margin),

[12] We use zero as the lower bound, but our results go through with a non-zero effective lower bound.

[13] The optimality of a constant deposit rate can be seen from Proposition 7 which characterizes the optimal path of r_t under any path of ρ_t.

the actual domain of interest is $x \in [0, \rho]$.

The decaying deposit base. We develop a minimal baseline model to highlight the intertemporal price–quantity trade-off under inattention. In particular, we intentionally evaluate the deposit franchise value based on existing deposits that decay over time in this baseline. In Appendix A.1 we analyze a more general case with deposit inflows or costly deposit acquisition, which leads to a steady state level of deposits. We show that our predictions on the optimal rate-setting remain unchanged in the generalized setting. Intuitively, a useful analogy can be drawn between our model and Tobin's q theory of investment. The per-dollar DFV on existing deposits we study corresponds to the marginal q since DFV is linear in initial deposit size M_0. It pins down the optimal size of deposit acquisition (analogous to capital investment) when equalized to the marginal acquisition cost. The bank sets the same rate to maximize DFV per dollar of deposits, regardless of whether it is in the bank or outside the bank.[14]

Time-varying policy rates. We assume a constant policy rate ρ as the baseline case. Appendix A.2 solves the optimal rate-setting of banks under any arbitrary path of policy rate $\{\rho_t\}_{t\geq 0}$ and shows that predictions of this baseline case carry through.

4.2. Deposit Rate and Pass-Through

We analyze the optimal deposit spread the bank sets and its properties. Under a constant policy rate ρ, the bank optimally sets a constant deposit spread $x \equiv \rho - r \in [0, \rho]$. The marginal change in bank franchise value associated with a marginal change in x is

$$\frac{\partial V_0}{\partial x} = \frac{\overbrace{\tau^{-1}P(x) + \rho}^{\text{gain from higher profit margin}} - \overbrace{x\tau^{-1}P'(x)}^{\text{loss due to faster decay}}}{(\tau^{-1}P(x) + \rho)^2} M_0 \tag{5}$$

In choosing the optimal deposit spread x, the bank trades off the profit margin (deposit spread) and quantity (the size of deposits)— a higher profit margin x brings higher profits

[14] In reality, banks have more instruments than we consider, such as promotional rates and cash bonuses, to acquire new depositors; see Benetton, Hébert, and McQuade (2025) for a complementary analysis that focuses on acquisition. Further, issuing new deposits may create dilution risk for existing depositors, raising their probability of withdrawal (Jermann and Xiang 2023). In future work, it would be promising to integrate our model with these considerations.

holding fixed deposits, but leads to a faster decay of deposit balances. Crucially, the quantity consideration is weaker when depositors are more inattentive (higher τ). If depositors are very inattentive, the profit margin consideration dominates, and the bank sets the highest deposit spread possible by choosing $x = \rho$. If depositors are only moderately inattentive, the bank offers an interior deposit spread $x < \rho$ (i.e., positive rate $r > 0$) to balance the profit margin and quantity considerations. We formalize these as follows.

Proposition 1 (Optimal deposit rate and pass-through)**.** *Define the threshold function*

$$u(\rho) \equiv \frac{(\gamma - 1)(\rho/b)^{\gamma} - a}{\rho} \tag{6}$$

which increases in ρ*.*

1. *If* $\tau \geq u(\rho)$*, the bank sets a zero deposit rate* $r = 0$ *and has zero pass-through from the policy rate* ρ *to deposit rate.*

2. *If* $\tau < u(\rho)$*, the bank sets a deposit rate below the policy rate*

$$r = \rho - b\left(\frac{\rho\tau + a}{\gamma - 1}\right)^{1/\gamma} \tag{7}$$

   with the following properties:

   (a) *the deposit rate* r *is lower when* τ *is higher, i.e.,* $\frac{\mathrm{d}r}{\mathrm{d}\tau} < 0$*;*

   (b) *the pass-through of policy rate to deposit rate is between zero and one, i.e.,* $\frac{\partial r}{\partial \rho} \in (0, 1)$*;*

   (c) *the pass-through to deposit rate is lower when* τ *is higher, i.e.,* $\frac{\partial^2 r}{\partial \rho \partial \tau} < 0$*.*

Proposition 1 predicts a kink in the bank's rate-setting function. It suggests that banks with very inattentive depositors set zero deposit rates and have zero pass-through $\frac{\partial r}{\partial \rho}$. The intuition is that, if the deposit decay rate responds little to the deposit spread, the bank will set the largest possible spread to profit from a higher profit margin.[15]

[15]While we simply assume that the lowest deposit rate banks can set is zero, we note that in reality banks may post a small positive rate out of other concerns. While there is no federal floor on retail deposit

Proposition 1 further states that banks with moderately inattentive depositors ($\tau < u(\rho)$) choose positive deposit rates. Among them, banks with more inattentive depositors (higher τ) set a lower deposit rate r. The intuition can be seen from the first-order condition (5): with convex $P(x)$, the higher the deposit spread x (i.e., lower r), the larger the loss due to faster decay relative to gain due to profit margin $\tau^{-1}xP'(x) - \tau^{-1}P(x)$. Further, as the difference is weakened by inattention via τ^{-1}, a bank with more inattentive depositors sets a higher deposit spread x, i.e., a lower deposit rate r.

It further suggests that deposit spread x increases in ρ. That occurs because the bank trades off current profit margin with decline in future demand. As ρ rises, the bank discounts future more, and thus it increases the spread x to extract more from current deposits. A higher spread x under a higher policy rate ρ means that the pass-through from the policy rate to the deposit rate is incomplete. Further, the pass-through is lower when inattention is higher, since inattention weakens deposit decay.

In Appendix Figure A-1, we plot the optimal deposit rate r and the pass-through $\frac{\partial r}{\partial \rho}$ as functions of inattention τ and policy rate ρ. Both decline in τ and increase in ρ.

Comparing market power in deposit and goods markets. Our model of market power in the deposit market contributes to the industrial organization of the banking sector. Below we clarify where it diverges from canonical models developed for goods markets.

First, the bank optimally sets an additive markdown, rather than a proportional one. The Lerner rule (Lerner 1934) establishes a markup that is *proportional* and inversely related to demand elasticity.[16] Departing from the canonical model which assumes that demand only depends on the monopoly price, the demand for deposits is sensitive to the deposit spread—the difference between the policy rate ρ and the monopoly price (deposit rate r).[17] This

rates, some accounts are explicitly "interest-bearing" (e.g., NOW accounts). Additionally, the CFPB Truth in Savings disclosures (Reg DD) requires banks to pay "interest" and to disclose the APY. Banks may post a de minimis rate to avoid advertising a 0% APY even in a low rate environment—for example, JPMorgan Chase retains a 1 bp interest rate on retail savings accounts from 2014 to 2025.

[16] Certain demand functions, such as logit, can generate an additive markup. However, this occurs not because the proportional Lerner rule is violated, but because the price elasticity of demand itself depends on the price level in a way that cancels out the price term in the proportional markup formula.

[17] This can be thought of as depositors choosing between the monopoly's product (a bank deposit) and an alternative (such as a money market fund) that pays the policy rate.

difference leads to an optimal markdown that is *additive*, not proportional.

Second, the pass-through from the policy rate to the deposit rate is incomplete despite an optimal additive markdown, because the policy rate also functions as the discount rate which affects the markdown. Canonical dynamic models of goods markets typically assume a constant discount rate (see Shapiro 1989 for a review). In contrast, policy rate ρ in our model serves dual purposes: it is both the marginal benefit of deposits for the bank, and the rate at which it discounts future profits. As ρ rises, the bank discounts the future profits more heavily, creating an incentive to widen today's profit margin to boost current profits. Consequently, the deposit rate moves less than one-for-one with the policy rate.

4.3. Deposit Flow Sensitivity and Franchise Value

Proposition 1 highlights the impact of inattention on bank's rate-setting. Our model also makes predictions on the quantities of deposits. In (1), the deposit decay rate $\tau^{-1}P(\rho - r)$ depends on inattention τ and the deposit spread $\rho - r$, both of which vary across banks. Once we solve for the optimal r on τ according to Proposition 1, we can characterize the equilibrium deposit outflow across banks and analyze its dependence on inattention.

Proposition 2 (Deposit flow sensitivity under optimal deposit spread)**.** *Under the optimal deposit spread $x \equiv \rho - r$ characterized in Proposition 1, the deposit flow sensitivity with respect to deposit spread is*

$$(\Delta t)^{-1}\frac{\partial(\log M_{t+\Delta t} - \log M_t)}{\partial x} = -\tau^{-1}P'(x) = \begin{cases} -\tau^{-1}\frac{\gamma}{b}\left(\frac{\rho\tau+a}{\gamma-1}\right)^{1-1/\gamma}, & \tau < u(\rho) \\ -\tau^{-1}\frac{\gamma}{b}\left(\frac{\rho}{b}\right)^{\gamma-1}, & \tau \geq u(\rho) \end{cases} \tag{8}$$

which is continuous, with its magnitude declining in τ.

There are two counteracting forces governing the comparative statics of the deposit flow sensitivity with respect to inattention τ. Higher inattention directly lowers the sensitivity via the τ^{-1} terms. However, since the withdrawal probability $P(x)$ is convex and that banks with more inattentive depositors set higher spreads x, the marginal withdrawal probability $P'(x)$ is higher under higher τ. On net, the direct effect dominates, leading to a flow sensitivity

whose magnitude declines in τ.[18]

We make further predictions on the comparative statics of the deposit franchise value.

Proposition 3 (Deposit franchise value)**.** *The bank's deposit franchise value* $V_0 = \frac{x}{\tau^{-1}P(x)+\rho}M_0$ *increases in* τ*, increases in* ρ *on* $\rho \in [0, u^{-1}(0)]$*, and decreases in* ρ *on* $\rho \in (u^{-1}(0), \infty)$*.*

In terms of the comparative statics with respect to inattention τ, it is intuitive that banks with more inattentive depositors (higher τ) have a higher DFV, since the deposit decay rate $\tau^{-1}P(x)$ is lower for any x they set and thus the bank must make strictly higher profits.

Regarding the policy rate ρ, it predicts that DFV increases in ρ when ρ is small (specifically, $\rho < u^{-1}(0)$) and decreases in ρ otherwise. To understand such state dependence of the duration of DFV, we start with the case of small ρ, where the optimal deposit rate is zero, and DFV is given by

$$V_0 = \frac{\overbrace{\rho}^{\text{profit margin}}}{\underbrace{\tau^{-1}P(\rho)}_{\text{deposit decay rate}} + \underbrace{\rho}_{\text{discount rate}}} M_0$$

If ρ increases, the profit margin, the deposit decay rate, and the discount rate all go up. The profit margin force increases DFV while the latter two forces decrease it. If the deposit decay rate is independent of ρ, as assumed in Drechsler, Savov, Schnabl, and Wang (2025), the profit margin force dominates the discount rate force, implying a DFV that is increasing in ρ. Under a convex $P(\rho)$, when ρ is small, the deposit decay force is weak and DFV still increases in ρ. This increasing relationship of DFV in ρ is driven by the profit margin. As ρ rises to $\rho \in (u^{-1}(0), u^{-1}(\tau))$ where $r = 0$ still holds, the deposit decay force becomes strong enough to overturn the overall effect, leading to a DFV that decreases in ρ.

As ρ rises further to $\rho > u^{-1}(\tau)$, the bank starts setting a positive deposit rate, as

[18]The dependence of r on τ is not a threat for comparative statics if we empirically study flow sensitivity of non-interest-bearing deposits (with $r = 0$). In that case, the flow sensitivity is $(\Delta t)^{-1}\frac{\partial(\log M_{t+\Delta t} - \log M_t)}{\partial \rho} = -\tau^{-1}P'(\rho)$, whose magnitude declines in τ.

characterized in Proposition 1. Hence DFV becomes

$$V_0 = \frac{\overbrace{x}^{\text{profit margin}}}{\underbrace{\tau^{-1}P(x)}_{\text{deposit decay rate}} + \underbrace{\rho}_{\text{discount rate}}} M_0$$

As ρ rises, the optimal deposit spread x changes, and the change in DFV is still governed by the same three forces (the profit margin, the deposit decay rate, and the discount rate). However, in this case, since the deposit spread x is optimally chosen to maximize DFV, it balances the marginal effects of profit margin and the deposit decay rate. Hence a marginal increase in ρ affects DFV only through the discount rate. That is an implication of the envelope theorem: in evaluating the comparative statics with respect to the policy rate ρ, we can treat the optimal spread x^* as fixed, i.e., $\frac{\mathrm{d}V_0(x^*(\rho),\rho)}{\mathrm{d}\rho} = \frac{\partial V_0(x^*,\rho)}{\partial \rho} = -\frac{x^*}{(\tau^{-1}P(x)+\rho)^2} M_0$. Hence, when the deposit rate r is optimally set to be positive under a large ρ, DFV declines in ρ, due to the direct effect of policy rate as the discount rate.

Additional direct effects of the policy rate on DFV. Our analysis demonstrates that when the bank optimally sets the deposit rate r to maximize DFV and when r is an interior solution, in evaluating the duration of DFV, only the direct effect of the policy rate ρ matters. In the baseline model, there is only one direct effect of ρ as the discount rate, and it lowers DFV. We consider two extensions which may affect the sign of the DFV duration. In Appendix A.3, we incorporate that the withdrawal probability P may directly depend on ρ beyond its dependence on the spread x as $P(x, \rho)$. If the withdrawal probability exhibits diminishing sensitivity with respect to the policy rate ($P_\rho(x, \rho) < 0$), it counteracts and, under certain conditions, outweighs the direct effect of discount rate on the DFV duration. In Appendix A.4, we allow for operating costs of banks as in Drechsler, Savov, and Schnabl (2021) and Drechsler, Savov, Schnabl, and Wang (2025). We show that a variable operating cost (per dollar of deposits) does not by itself change the sign of the DFV duration, since it is part of the trade-off for banks' rate-setting. However, a large fixed operating cost that is independent of deposit size (e.g., the cost of operating bank branches) may turn the duration of DFV negative, even when the bank sets an interior optimal deposit rate, since a higher discount rate lowers the present value of such a fixed cost.

4.4. Sluggish Adjustment

Previously, we have considered the deposit spread, pass-through and deposit flows. In this subsection, we analyze banks' short-run rate adjustment dynamics in response to a policy change. We show that, in response to a policy rate change, the higher the prevailing policy rate, the more banks adjust at any point in time.

We consider a distribution of banks on $\tau \in [\underline{\tau}, \overline{\tau}]$ with cumulative distribution function $F(\cdot)$ with positive mass throughout. We introduce adjustment frictions à la Calvo (1983)—a bank can only adjust its deposit rate when it receives a Poisson strike with intensity θ.

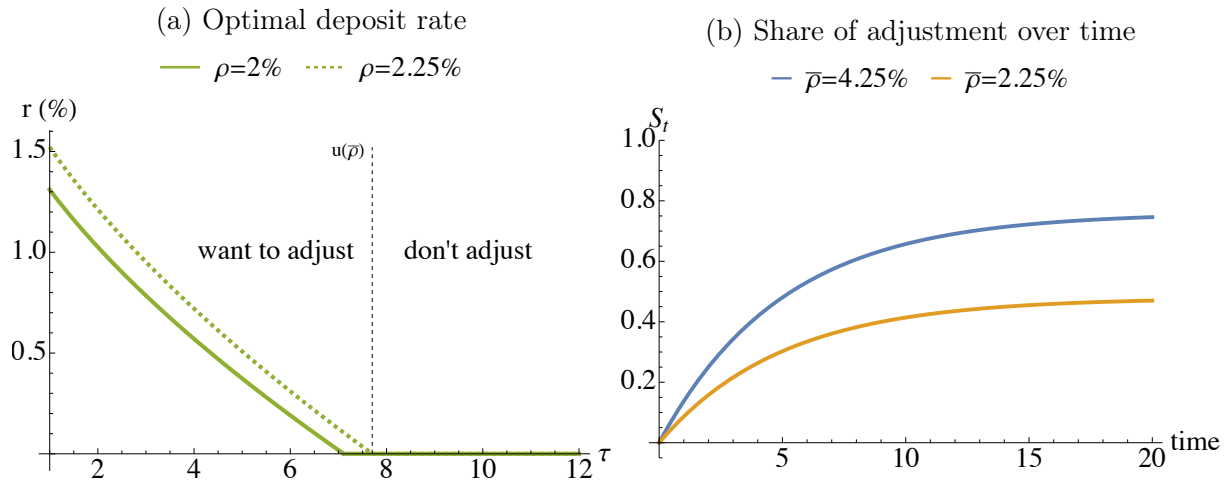
Proposition 4 (Aggregate share of adjusted banks)**.** *In response to a permanent policy change from ρ to ρ' at time 0, the share of banks that have adjusted their deposit rates by time t follows*

$$S_t = \underbrace{(1 - \mathrm{e}^{-\theta t})}_{\text{Calvo convergence}} \cdot \underbrace{F(u(\bar{\rho}))}_{\text{eventual share}} \tag{9}$$

in which $\bar{\rho} \equiv \max\{\rho, \rho'\}$ is the event-peak rate*—the larger of pre- and post-change rates. Further, at any t, S_t increases in $\bar{\rho}$ for $\bar{\rho} \in (u^{-1}(\underline{\tau}), u^{-1}(\overline{\tau}))$.*

The proposition suggests that the share of banks that have adjusted by time t converges over time to the eventual share, which increases in the *event-peak rate* $\bar{\rho}$. To understand this result, let us consider the eventual share. Proposition 1 suggests that, under any prevailing policy rate ρ, only banks with $\tau < u(\rho)$ will set a positive deposit rate and the threshold $u(\rho)$ increases in ρ. Hence, banks with $\tau > u(\rho)$ and $\tau > u(\rho')$ will always keep a zero deposit rate before and after the policy change. The other banks set deposit rates that respond to the policy rate, and will adjust when they get a Poisson strike. Thus the eventual share is given by the share of banks falling below the threshold $u(\bar{\rho})$, i.e., $F(u(\bar{\rho}))$, which increases in $\bar{\rho}$. If $\bar{\rho}$ is higher, more banks want to adjust eventually and hence more will adjust by any time t. That is, a higher $\bar{\rho}$ corresponds to a higher S_t.

Further, the theory predicts no particular role of the sign of the policy change beyond its effect on $\bar{\rho}$. Previously, Driscoll and Judson (2013) and others note that the adjustment path



Panel (a) plots the optimal deposit rate r under two different policy rates as functions of inattention τ as predicted by Proposition 1, under the calibrated parameters in Section 6. Panel (b) plots the share of banks that have adjusted by time t in response to a time-0 policy change under two different event-peak policy rate $\bar{\rho}$ as predicted by Proposition 4.

Figure 4: Short-run dynamics

S_t is asymmetric across rate cuts and hikes: rate cuts trigger more banks to adjust than rate hikes. We revisit this finding and show that the different event-peak rates $\bar{\rho}$ between cuts and hikes may lead to the seemingly asymmetric result, since rate cuts often begin from a high rate whereas rate hikes are typically associated with low rates.

Figure 4 illustrates the short-run dynamics. On the left, we plot the optimal deposit rate under a policy rate of 2% and 2.25% respectively. Imagine the policy rate rises from 2% to 2.25%, or falls from 2.25% to 2%, the banks above the threshold $u(\bar{\rho})$ set zero deposit rates and those below the threshold want to adjust. On the right, we show that the share of adjustment S_t is higher under higher event-peak rate $\bar{\rho}$.

4.5. Empirical Implications

Our rate-setting model is consistent with well-known aggregate facts including positive deposit spreads, incomplete pass-through of policy rates, and relatively muted flow sensitivity. In addition, it delivers unique, rich cross-sectional predictions linked to depositor inattention. We outline these predictions below to guide the empirical tests and calibration.

Cross-sectional variation in deposit rate, pass-through, and flow sensitivity. Proposition 1 predicts that, across banks, those with more inattentive depositors set a lower

deposit rate r (or equivalently, a higher deposit spread x), and have a lower pass-through from the policy rate change to the deposit rate r (or equivalently, a higher pass-through into deposit spread x). Proposition 2 suggests that, banks with more inattentive depositors face flows that are less sensitive to changes in deposit spread x.

"Asymmetric" sluggishness. Although our central results focus on long-run effects, the model sheds new light on the short-run rate adjustments following policy rate changes. Proposition 4 suggests that, more banks will adjust in response to a policy rate change when the event-peak policy rate $\bar{\rho}$ is higher. Consequently, if we ignore the role of $\bar{\rho}$, policy rate cuts, which often happen under higher prevailing $\bar{\rho}$, can trigger more banks to adjust than policy hikes associated with low $\bar{\rho}$, generating the observed "asymmetric" sluggishness.

From cross-sectional evidence to deposit franchise value. Our model features three parameters (a, b, γ) which govern the level, slope, and curvature of the deposit decay rate $\tau^{-1}P(x)$. These parameters will be informed by the three cross-sectional moments regarding deposit rate, pass-through, and flow sensitivity. Once we calibrate these parameters, we can determine the deposit franchise value and its comparative statics with respect to inattention τ and policy rate ρ, following Proposition 3.

5. Evidence of Banking on Inattention

For many depositors, account activity is too sparse to estimate inattention. To examine how inattention shapes bank-level deposit flows and deposit pricing, we first project the in-sample inattention measure above to the full population as a function of demographic and socioeconomic variables, by training a statistical model that predicts inattention annually for every location-income cell. We then aggregate inattention to bank level and test the theoretical predictions. Banks with more inattentive depositors experience weaker flow sensitivity, charge wider spreads, and pass on policy-rate changes by less. Further, we show that, the short-run response of bank adjustment to monetary policy changes is driven by the event-peak policy rate as predicted theoretically.

5.1. *Predicting Inattention Using Public Datasets*

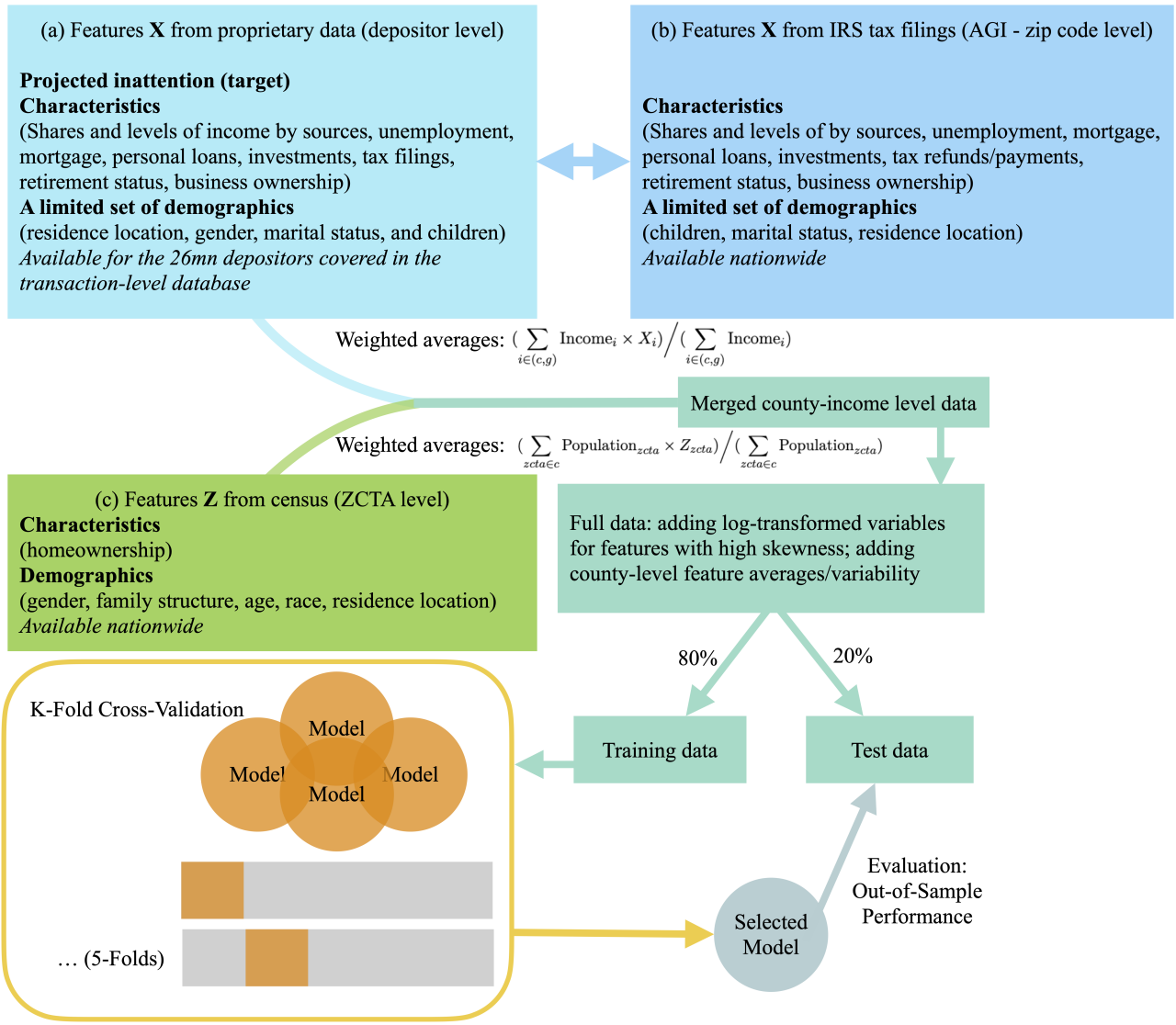
The transaction-level data does not cover several key depositor demographics (e.g., age, family structure, race). To predict inattention, we first aggregate individual-level data to the county-income-group level and supplement it with other variables publicly available. Using the combined dataset, we train and cross-validate a predictive algorithm and then project it nationwide using IRS tax filings at the same county-income-group granularity. Below, we detail the steps to develop this algorithm, and Figure 5 outlines each estimation stage with the variables used for estimation.

We begin by constructing a merged dataset that includes county–income-group averages of inattention, along with corresponding demographic and socioeconomic outcomes. In this step, we aggregate individual inattention measures by computing a weighted average. For each county–income-group cell (c, g), we define the income-weighted inattention as $\alpha_{c,g} = \frac{\sum_{i\in(c,g)} \text{Income}_i \times \log(\Delta\text{HL}_i)}{\sum_{i\in(c,g)} \text{Income}_i}$; we standardize $\alpha_{c,g}$ to serve as the target variable for prediction.[19]

We predict the standardized inattention $\alpha_{c,g}$ with a gradient boosting algorithm using features derived from our transaction data with demographic variables from the 2010 ZCTA-level Census via county FIPS codes (see Figure 5 for a summary of variables across datasets). Because some of the explanatory variables are highly skewed, we apply a log transformation when the skewness exceeds 3 and include county-level averages to capture potential social interactions that can affect depositor inattention (Eichenbaum, Puglisi, Rebelo, and Trabandt 2025). We split the merged dataset into an 80% training set and a 20% test set, employ five-fold cross-validation, and use randomized hyperparameter tuning to select the best model. The model produces predicted inattention levels $A(X_{c,g})$, where $X_{c,g}$ represents county-level socioeconomic and demographic characteristics.

We evaluate the selected model on the test dataset, where it explains approximately 72% of the out-of-sample variation in inattention, $\alpha_{c,g}$. The gradient boosting algorithm is highly effective at capturing meaningful variations in inattention by modeling flexible, non-linear

[19]The raw half-life gap ΔHL_i is strictly positive and right-skewed as a fraction of depositors wait weeks or months, who then dominate the loss function used in our gradient boosting regression. We in turn transform the target variable to improve the predictive accuracy. The log scale compresses extreme values, stabilizes variance, and yields a distribution that is close to normal.



This chart lays out the data and method we use to predict inattention. We combine proprietary data (**a**) and census data (**c**) to create a merged dataset that includes both the county–income-group inattention and demographic and socioeconomic features to train a gradient boosting algorithm. Since variables can be highly skewed, we apply a log transformation when the skewness is above 3, and include county-level averages to account for local social interaction effects.

We then split the merged dataset into an 80% training set and a 20% test set; for the training set, we perform five-fold cross-validation and use randomized hyperparameter tuning to select the best model within the training dataset. We evaluate this selected model using the test dataset and report the out-of-sample performance.

Finally, we apply this model on a national scale using publicly available micro-level IRS (**b**) to substitute for proprietary data (**a**), and census data (**c**) for the years 2007 to 2021, providing a comprehensive measure of inattention across time and location.

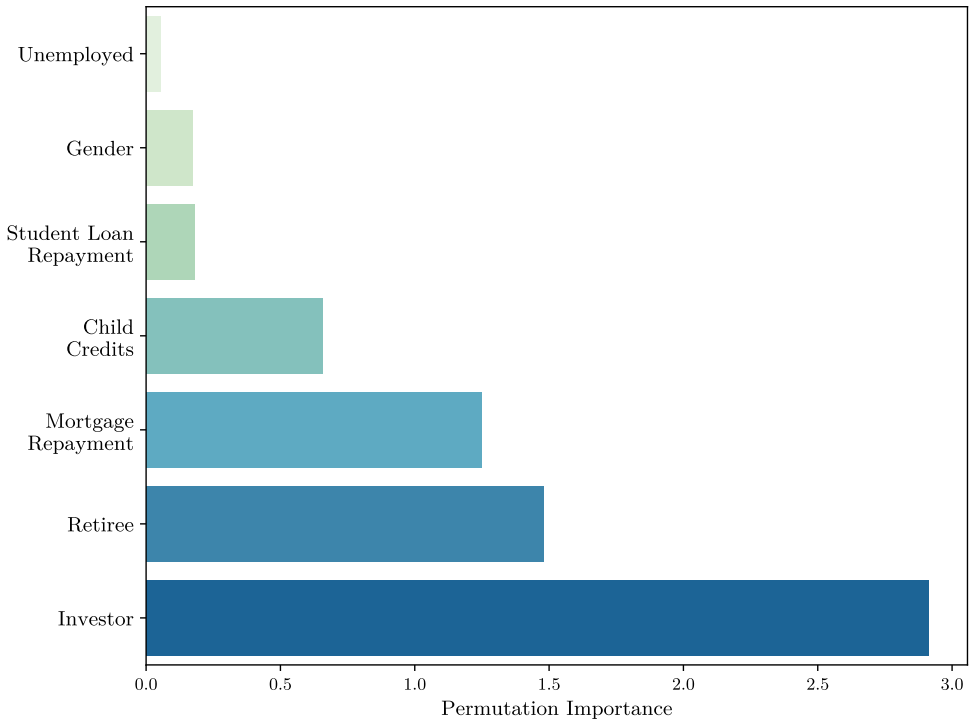
Figure 5: Predicting inattention: Data and estimation steps

interactions among demographic and socioeconomic variables. However, this complexity makes it difficult to pinpoint which variables are most useful in predicting inattention. For illustrative purposes, we perform a permutation test in which we randomly shuffle each feature and compute the average drop in R^2 over five trials. Although this method does not capture the combined or non-linear importance of features that work together, it provides useful insight into the *independent* contribution of each variable. Figure 6 shows that several features cause a significant reduction in R^2 when permuted. The investment–related variables which capture average income share from investments, and shares of individuals with investment incomes are the most important independent contributors; permuting this group alone leads to a 2.9% drop in the overall out-of-sample R^2 of the pretrained model.

Finally, we apply the tuned model to all counties in the U.S. annually from 2007 to 2021. Since our proprietary dataset does not cover the entire U.S. population, we map in-sample explanatory variables in the model to corresponding variables derived from IRS administrative filing records (substituting dataset (a) with dataset (b) in Figure 5). Specifically, we extract measures from IRS Form 1040 corresponding to variables in the proprietary dataset. For example, to construct an "investment income" measure, we sum up reported net capital gains, dividends (ordinary and qualified), taxable interest, and, in some years, components of retirement income, which mirrors the investment income variable inferred from the transaction data. A complete list of variables derived from IRS tax filings, including their composite constructions, is provided in Table A-1. These variables are reported at ZIP Code–income-group level; we aggregate them to the county–income-group level (the same level at which the predictive inattention model $A(X_{c,g})$ is trained). That is, for each county–income-group cell (c, g) in year t, we obtain the predicted inattention $\hat{\alpha}_{c,g,t} = A(X_{c,g,t})$.

County-level inattention. We measure county–level inattention as an AGI-weighted average of county–income-group–level inattention

$$\alpha_{ct} = \frac{\sum_g \text{AGI}_{cgt}\hat{\alpha}_{cgt}}{\sum_g \text{AGI}_{cgt}},$$



To isolate the relative importance of each variable, we perform a permutation test in which we randomly shuffle each feature and compute the average drop in R^2 over five trials. Note that this method underestimates the importance of features that interact non-linearly or work in tandem with other variables. We then display the top seven feature groups that *independently* contribute the most to the drop in R^2, with each group representing a set of related candidate features (e.g., share of investment as a percentage of total income, log-transformed values, local averages, etc.). Investor includes the number/share of depositors with brokerage account transactions and share of net investment income out of total income. Retiree (unemployed) includes the number/share of depositors with Social Security (unemployment benefits) credit transactions and share of Social Security income out of total income. Mortgage (student loans) repayment includes the number/share of depositors with mortgage payment (student loans) transactions. Child credits include the number/share of depositors with child tax credit transactions and share of child tax credits out of total income. Share/number of female/male uses inferred gender codes as described in Section 2.1. In public data, gender is approximated by county-level census demographics.

Figure 6: Variables predicting inattention

where AGI_{cgt} is the total adjusted gross income summed over all tax filings in income group g for county c in year t from IRS tax filings. We visualize the county-level inattention in Appendix Figure A-6.

Bank-level inattention. Assuming that bank branches in the same locale face the same group of depositors as in Drechsler, Savov, and Schnabl (2017), using deposit-weighted

averages of county-level inattention α_{ct}, we obtain bank-level inattention

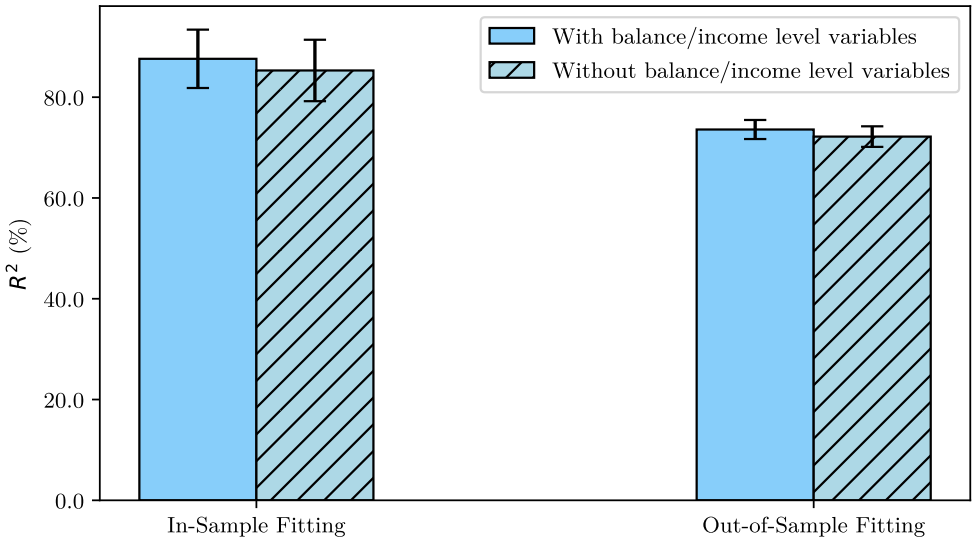
$$\alpha_{bt} = \frac{\sum_c \text{Total Deposits}_{cbt} \hat{\alpha}_{ct}}{\sum_c \text{Total Deposits}_{cbt}}.$$

where $\text{Total Deposits}_{cbt}$ is the total deposits in county c for bank b in year t from the Summary of Deposits.

Appendix E.3 compares two separate regressions of county–bank–level annual deposit growth, one uses our predicted inattention, $\hat{\alpha}_{bt}$; the second aggregates the directly observed county measure, α_{ct}, up to the bank level using deposit weights as above. Both regressions yield similar sensitivities of deposit flows to policy rate changes, confirming that $\hat{\alpha}_{bt}$ is just as informative as aggregating the directly observed inattention in sample. Crucially, the predicted inattention allows us to move from the transaction-data coverage of roughly one-third of counties to nationwide coverage.

Relation with the size of deposit balances. Argyle et al. (2024) highlight that depositors with larger balances are more rate-insensitive. Consistent with their findings, we show that inattentive depositors tend to have higher balances (Appendix figure A-7). However, this correlation does not imply that large balances *cause* inattention. We find that, at least statistically, high balances are likely a symptom rather than a cause of deposit stickiness. We run a head-to-head comparison between two predictive models. The baseline statistical model (that we used above to predict inattention), built on demographic data and income *shares* instead of *levels*, explains about 85% of the variation in the training data, with a standard error of 6.1% reflecting the uncertainty across trials. We then expand the model by adding balance and income level variables, such as sizes of balance, and levels of income by source, loans, and mortgages, to see if these factors would improve in-sample explanatory power and out-of-sample predictions. As shown in Figure 7, the expanded model increases the in-sample explanatory power to 88%, but the improvement in the out-of-sample performance is marginal: the test R^2 improved slightly from 72.18% (with the standard deviation of 2) to 73.59% (with the standard deviation of 1.9). The insignificant gains are well within the expected variability and suggest that while high balances are correlated with inattention, they do not add meaningful predictive power beyond what demographics and income shares

already capture.



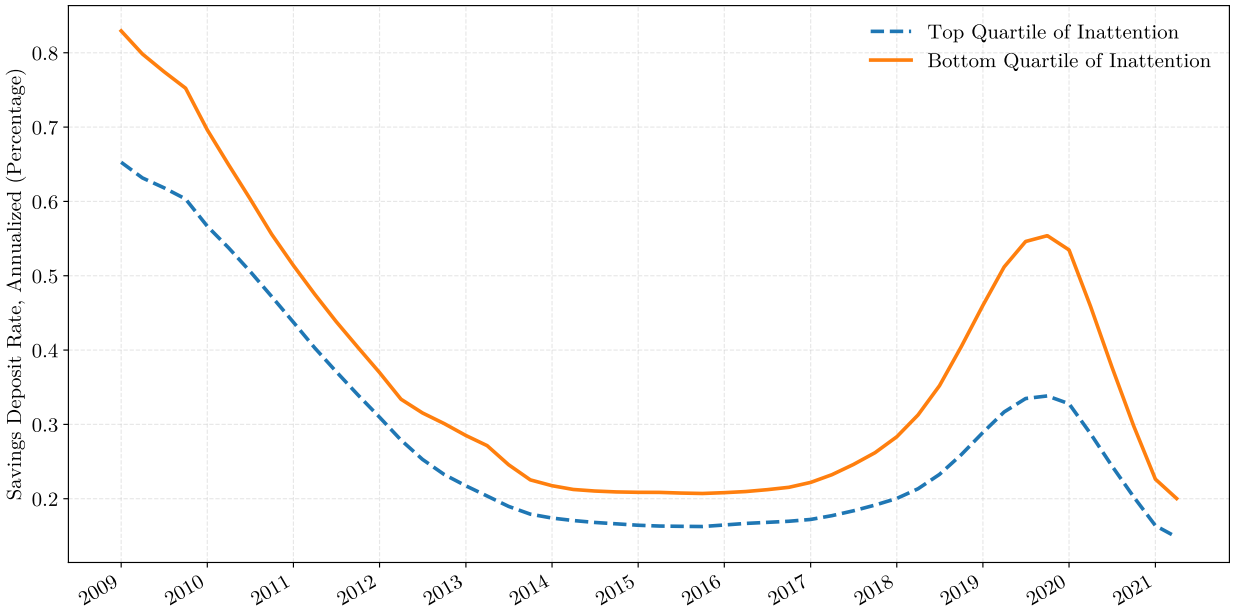
This graph compares in-sample and out-of-sample explanatory power (R^2 in percentages) in two models: one model (left) includes additional *level* variables, such as balance sizes, income levels by sources of income, total income, loans, and mortgages; the other (in stripe pattern) uses only demographic transformations and income shares. For each model, we compute and plot the mean R^2 and its standard deviation (the error bar) across 100 random trials. The left set of bars displays the training (in-sample) performance, while the right set shows the test (out-of-sample) performance. The visualization illustrates that although there is a slight increase in both training and test R^2 when balance/income level variables are included, these additional variables do not significantly improve the model's fit.

Figure 7: Levels of income and balance only marginally improve inattention predictions

5.2. Time Series of Deposit Rates and Inattention

Leveraging our population-wide inattention measure, we sort banks into quartiles by their deposit-weighted inattention each year and then plot average savings deposit rates for the most attentive (bottom quartile) and least attentive (top quartile) banks in Figure 8. The gap is visible in most years and across rate environments: banks serving less attentive depositors systematically post lower savings rates than banks serving more attentive depositors.

This figure aligns with our model's central mechanism: lower depositor attention weakens rate sensitivity, allowing banks to sustain wider spreads without triggering outflows. We next turn to testing the model's cross-sectional predictions, which will also inform the model parameters and quantify the importance of inattention.



We sort banks into quartiles each year according to their deposit-weighted inattention measure. The top quartile by inattention includes the 25% of banks with highest deposit-weighted inattention, and bottom quartile by inattention includes the 25% of banks with lowest deposit-weighted inattention. For each quartile we compute the average savings deposit rate, imputed as interest expense on savings deposits divided by the size of savings deposits, using U.S. Call Reports between 2007 and 2021 where the inattention measure is available. The figure plots top quartile (banks with more inattentive depositors, blue dashed line) against bottom quartile (banks with more attentive depositors, orange solid line). Both lines are 4-quarter moving averages.

Figure 8: Inattention and deposit rates

5.3. Cross-Sectional Evidence on Flow Beta, Deposit Rate, and Pass-Through

We now test the model's qualitative predictions in the cross-section of banks. Proposition 1 implies that banks serving a more inattentive depositor base have (i) a wider deposit spread and (ii) a higher spread beta. Additionally, we show that banks with more inattentive depositor bases have a smaller flow beta for non-interest-bearing deposits.

Non-interest-bearing deposits' flow beta. We estimate bank-level flow beta following Drechsler, Savov, and Schnabl (2017)

$$\Delta \log m_{bt} = \sum_{k=-4}^{0} \beta_k^f \Delta \rho_{t-k} + c_b + \epsilon_{bt},$$

where $\Delta \log m_{bt}$ is the growth of non-interest-bearing deposits for bank b in quarter t, $\Delta \rho_t$ is the quarterly change in the policy rate, and c_b is a constant. As checking deposits earn

zero deposit rate, $\Delta\rho_t$ is also the change in the bank's deposit spread. Hence the deposit flow beta, defined as $\sum_{k=-4}^{0}\beta_k^f$ following Drechsler, Savov, and Schnabl (2017), reflects the sensitivity of deposit outflows to a 1 pp deposit spread increase over the past five quarters, mapping to the flow sensitivity in our model.

Figure 9(a) reveals a clear inverse relationship: banks with more inattentive depositors display lower deposit flow betas. For a one percent policy rate change, banks with one-standard-deviation higher inattention experience 0.46% less deposit outflows in non-interest-bearing deposits.

Deposit spread beta. Figure 9(b) plots the savings deposit spread beta defined in (Drechsler, Savov, and Schnabl 2017), estimated from

$$\rho_t - r_{bt} = \sum_{k=-4}^{0}\beta_k\rho_{t-k} + c_b + \epsilon_{bt},$$

where r_{bt} is the rate offered by bank b on its savings deposits in quarter t, and c_b is a constant. Banks with more inattentive depositors have a lower pass-through to deposit rates: banks with one-standard-deviation higher depositor inattention pass through a one-percentage-point rate change about 3 basis points less.

Deposit spread. Deposit spread is on average higher for banks with more inattentive depositors. In Figure 9(c), we plot the bank-level deposit spread in savings deposits against the inattention in depositor base at the last quarter of 2019, during which period the prevailing policy rate is close to the target 2%.[20] Banks with one-standard-deviation more inattentive depositors post 10 basis points higher spread. Additionally, our model predicts a policy-rate-dependent break point at $\tau = u(\rho)$, above which banks set a zero deposit rate. Consistent with this, Figure 9(c) plateaus at high τ. We report a linear fit for simplicity, since in the last quarter of 2019 most banks are interior.

[20] We report in appendix the average deposit spread plotted against average bank-level inattention during sample period in Figure A-8

(a) Flow beta

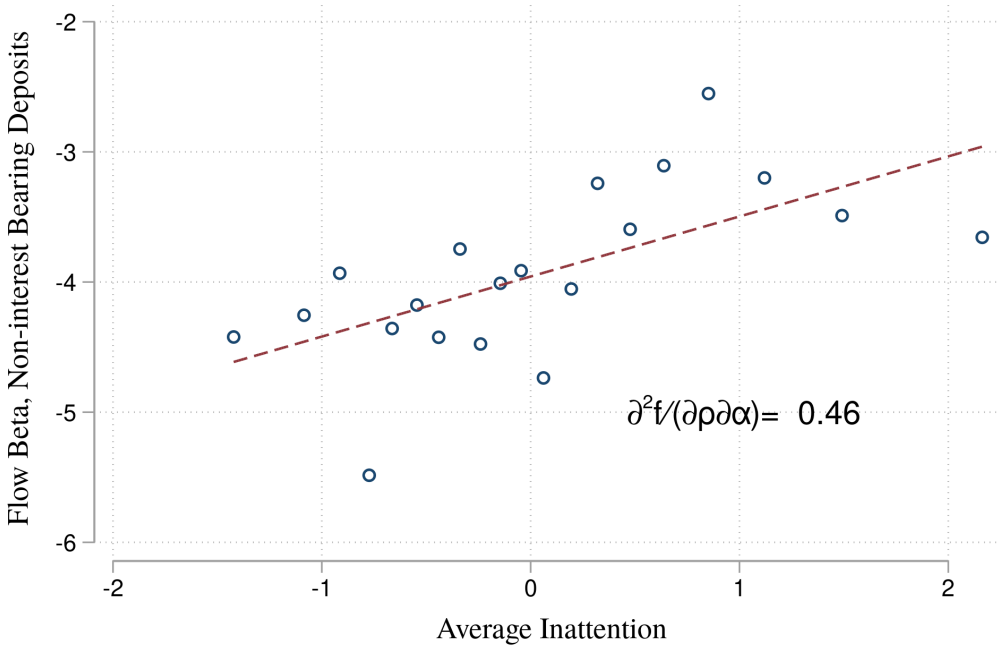
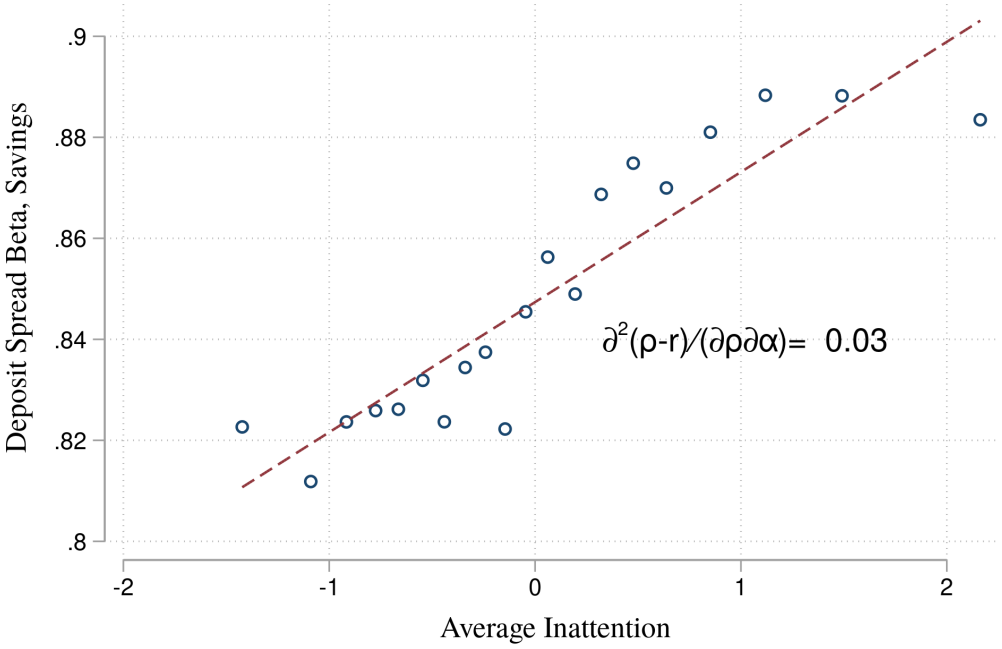


Figure 9: Flow beta, deposit spread, deposit spread beta and inattention

Panels (a) and (b) sort banks by the average standardized inattention of their depositor base during the sample period. Flow beta takes the sum of coefficients from a five-quarter lagged regression of *non-interest-bearing* deposit growth on policy rate changes; it measures the % change in deposits triggered by a 1 pp spread increase. Deposit spread beta is the sum of five-quarter lagged coefficients from regressing the savings deposit spread on past policy rates; higher values indicate greater pass-through to spread. Panel (c) uses the snapshot from 2019Q4 to demonstrate the relation between the level of spread and bank-level inattention at 2019Q4, at which point in time the policy rate is at 2.2%. The sample consists of all banks from Call Reports between 2008 and 2021, with at least 40 quarters of observations.

(b) Deposit spread beta



(c) Deposit spread

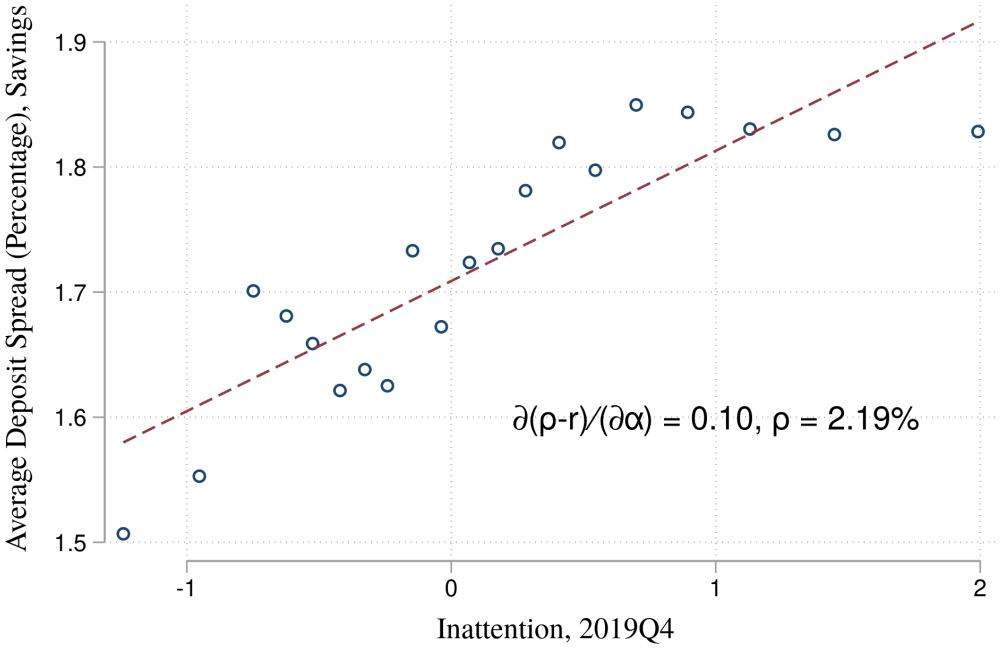


Figure 9: Flow beta, deposit spread, deposit spread beta and inattention (Cont.)

Appendix Table A-3 summarizes regression results of flow beta, deposit spread, and spread beta on inattention, where we also control for bank size, banks' local market power, capital ratio, and non-deposit ratio to account for bank-level scale, concentration, solvency, and funding-mix differences that may affect pricing and flows unrelated to inattention. Results are robust with these controls.

5.4. Deposit Flow Sensitivity: the Leave-One-Out Spread Instrument

Proposition 2 predicts that deposit outflows are less sensitive to the spread when depositors are more inattentive. Testing this prediction is challenging because depositor inattention affects both deposit flows and the spread x_{bt}. Specifically, Section 4 suggests that we can approximate the rate setting function as:

$$x_{bt} = \beta_0 + \beta_1 \alpha_{bt} + \beta_2 \alpha_{bt} \rho_t + \beta_3 \rho_t + \delta_b + \upsilon_{bt}, \tag{10}$$

where deposit spread of bank b at quarter t is $x_{bt} = \rho_t - r_{bt}$, and r_{bt} is the savings deposit rate, calculated as the ratio of interest expenses to savings deposits from Call Reports. The bank-level deposit-weighted inattention $\alpha_{bt} = \sum_c w_{cbt} \alpha_{cbt}$, and bank b's deposit weight of deposits at county c in quarter t is w_{cbt}, which sum up to 1 across counties for a given bank ($\sum_c w_{cbt} = 1$).

Note that bank b *chooses* x_{bt} as a function of the bank's depositor inattention α_{bt} and the policy rate ρ_t (Eq. (10)). A naive regression of flows on spreads would therefore confound demand with the bank's own pricing response to attention. Our solution is a leave-one-out (LOO) instrument, which we construct in three steps. First, we estimate the bank-level rate-setting function in (10); second, we form a LOO deposit-weighted inattention measure that removes county j's inattention, $\alpha_{-j,bt}$; third, we "predict" the bank–county spread for county j by plugging the LOO deposit-weighted inattention measure into the estimated rate-setting function to construct the LOO spread instrument x_{jbt}^{LOO}. Intuitively, this instrument works based on a simple fact: within a multi-county bank, centralized pricing transmits the inattention mix of *other* counties into the posted rate, especially for peripheral markets where local branches do not set rates.[21] Because county j is excluded from $\alpha_{-j,bt}$, local

[21] Banks may set a single uniform rate (Begenau and Stafford 2023) or delegate pricing to a few rate-

demand shocks in j cannot mechanically drive x_{jbt}^{LOO}; and it remains relevant whenever the bank prices largely at the deposit-weighted inattention level.

We implement this design and report results below. First, Column 1 of Table 2 reports the bank-level rate-setting regression from estimating (10): deposit spreads increase with the policy rate, with a bank's deposit-weighted inattention, and with their interaction.

Taking the fitted coefficients from (10), we construct the LOO rate instrument for the deposit spread at the bank–county level:

$$x_{jbt}^{LOO} = \hat{\beta}_0 + \hat{\beta}_1 \alpha_{-j,bt} + \hat{\beta}_2 \alpha_{-j,bt} \rho_t + \hat{\beta}_3 \rho_t + \hat{\delta}_b,$$

where $\alpha_{-j,bt} = \frac{\sum_{c \neq j} w_{cbt} \alpha_{ct}}{1 - w_{jbt}}$ is the inattention the bank b faces weighted by deposit sizes in counties other than j.

Taking stock, this rate instrument is valid under two conditions: first, for a periphery county j with a small deposit share w_{jbt} so that the omission of county j hardly changes α_{bt}, the deposit-weighted average of depositor inattention faced by bank b at quarter t; in other words, bank b offering the same rate for the same deposit product does not set rate based on inattention of depositors in county j with small deposit size (assuming branches in the periphery county does not set rates). Empirically, we restrict the sample of bank-county pairs to counties with less than 50% of total bank deposits at a given time, and banks with more than 10 counties. In addition, inattention of any counties other than j cannot be correlated with errors $x_{jt} - \hat{x}_{jt}$, which is realistic as banks are present at large number of counties, and we also add time-region fixed effects in the fully saturated specification.

We then estimate banks' deposit flow sensitivity using a two-stage least-square specification, proxying rates and their interactions with inattention and local market power as highlighted in Drechsler, Savov, and Schnabl (2017) using the LOO instrument x_{jbt}^{LOO}. with additional bank, county, and state-year fixed effects that accounts for idiosyncratic and trending deposit growth.

In the first-stage regressions, we treat Δx_{jbt}, $\alpha_{bt} \Delta x_{jbt}$, and $\text{HHI}_{jt} \Delta x_{jbt}$ as endogenous

setting branches (Drechsler, Savov, and Schnabl 2017). Our research design is orthogonal to this discussion, as we do not analyze major branches and focus on the minor branches which follow the lead rate.

and instrument them with the leave-one-out instruments, controlling for county level concentration, and bank, county, and state-year fixed effects that appear in both stages:

$$\begin{aligned}
\Delta x_{jbt} &= \eta_1 \alpha_{bt} \Delta x_{jbt}^{LOO} + \eta_2 \Delta x_{jbt}^{LOO} + \eta_3 \alpha_{bt} + \eta_4 \text{HHI}_{jt} + \eta_5 \text{HHI}_{jt} \Delta x_{jbt}^{LOO} + \delta_j + \delta_b + \delta_{s(j)t} + \epsilon_{jbt}, \\
\alpha_{bt} \Delta x_{jbt} &= \theta_1 \alpha_{bt} \Delta x_{jbt}^{LOO} + \theta_2 \Delta x_{jbt}^{LOO} + \theta_3 \alpha_{bt} + \theta_4 \text{HHI}_{jt} + \theta_5 \text{HHI}_{jt} \Delta x_{jbt}^{LOO} + \delta_j + \delta_b + \delta_{s(j)t} + \epsilon_{jbt}, \\
\text{HHI}_{jt} \Delta x_{jbt} &= \iota_1 \alpha_{bt} \Delta x_{jbt}^{LOO} + \iota_2 \Delta x_{jbt}^{LOO} + \iota_3 \alpha_{bt} + \iota_4 \text{HHI}_{jt} + \iota_5 \text{HHI}_{jt} \Delta x_{jbt}^{LOO} + \delta_j + \delta_b + \delta_{s(j)t} + \epsilon_{jbt},
\end{aligned}$$

And in the second stage, we estimate the sensitivity of deposit outflows to the instrumented variables related to rate spread ($\widehat{\Delta x_{jbt}}$, $\widehat{\alpha_{bt} \Delta x_{jbt}}$, and $\widehat{\text{HHI}_{jt} \Delta x_{jbt}}$):

$$\Delta \log m_{jbt} = \zeta_1 \widehat{\Delta x_{jbt}} + \zeta_2 \widehat{\alpha_{bt} \Delta x_{jbt}} + \zeta_3 \alpha_{bt} + \zeta_4 \widehat{\text{HHI}_{jt} \Delta x_{jbt}} + \zeta_5 \text{HHI}_{jt} + \delta_j + \delta_b + \delta_{s(j)t} + \varepsilon_{jbt}.$$

We report the estimated results in column 2–4 in Table 2. The leave-one-out instrument is a generated regressor, so we report bootstrapped standard errors throughout the estimates. The leave-one-out rate instruments along with bank-level inattention and county-level HHI, and bank, county, and state-year fixed effects, explain 96% of the variation in bank rate and its interaction with inattention; in the second stage, we show that deposit outflows are larger in counties with higher deposit spread. Column 5 indicates that a 1% rise in the annualized deposit spread leads to smaller deposit outflows in counties with inattentive depositors: raising inattention by one standard deviation cuts the outflow response by about 0.54%. Columns 6-7 show that outflows' rate sensitivity is robustly lower with higher inattention, with bank-year controls that absorb bank-level time trends in deposit growth, and additional county-level fixed effects that account for idiosyncratic deposit growth. For later valuation of inattentive depositor's franchise value, we use the fully saturated estimate from column 6, that one standard deviation higher inattention leads to 0.56% less outflows with 1% higher spread.

5.5. "Asymmetric" Sluggishness in Rate Adjustment

Our model predicts that a monetary policy change at a higher prevailing level of policy rate triggers more banks to adjust. We test it by tracking when banks reprice their money market deposit accounts (MMDAs) around FOMC announcements.

		First Stages			Second Stage		
	Spread (x_{bt})	ΔSpread (Δx_{jbt})	Inatt.·ΔSpread ($\alpha_{jbt} \cdot \Delta x_{jbt}$)	HHI · ΔSpread ($\text{HHI}_{jt} \cdot \Delta x_{jbt}$)	ΔLog(Deposits) ($\Delta \log m_{jbt}$)		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ρ_t	0.761***						
	(0.002)						
$\alpha_{bt} \cdot \rho_t$	0.003*						
	(0.002)						
α_{bt}	0.058***						
	(0.004)						
Δx_{jbt}^{LOO}		-0.788**	1.869	1.022**			
		(0.608)	(0.243)	(0.312)			
$\alpha_{jbt} \cdot \Delta x_{jbt}^{LOO}$		0.001	1.023***	-0.001			
		(0.002)	(0.008)	(0.001)			
$\text{HHI}_{jt} \cdot \Delta x_{jbt}^{LOO}$		0.008*	0.003	1.046***			
		(0.002)	(0.001)	(0.009)			
$\widehat{\alpha_{jbt} \cdot \Delta x_{jbt}}$					0.543***	0.477***	0.560***
					(0.116)	(0.080)	(0.088)
$\widehat{\text{HHI}_{jt} \cdot \Delta x_{jbt}}$					0.438	0.642*	0.515**
					(0.228)	(0.248)	(0.198)
$\widehat{\Delta x_{jbt}}$					0.106	0.000	0.000
					(30.910)	(0.000)	(0.000)
HHI_{jt}		0.005	-0.012***	0.024***	0.687**	0.715***	0.692***
		(0.002)	(0.002)	(0.003)	(0.360)	(0.354)	(0.348)
α_{jbt}		0.004	0.051***	-0.012***	1.192***	1.096***	1.036***
		(0.001)	(0.004)	(0.002)	(0.221)	(0.219)	(0.199)
Observations	95,296	146,753	146,753	146,753	146,753	146,753	146,753
Adjusted R^2	0.90	0.98	0.96	0.97			
F-stat			281.10				
Bank f.e.	Y	Y	Y	Y	Y	Y	Y
County f.e.	Y	Y	Y	Y	Y	Y	Y
Year f.e.	Y	Y	Y	Y	Y	Y	Y
State-Year f.e.	Y	Y	Y	Y	Y	Y	N
Bank-Year f.e.	N	N	N	N	N	Y	N

Column 1 reports OLS estimates from the bank-level rate-setting equation $x_{bt} = \beta_0 + \beta_1 \alpha_{bt} + \beta_2 \alpha_{bt} \rho_t + \beta_3 \rho_t + \delta_b + \upsilon_{bt}$, where the spread $x_{bt} = \rho_t - r_{bt}$ is measured at the end of June, r_{bt} is the bank's savings-deposit rate, and ρ_t is the year-end policy rate. Inattention is deposit-weighted, $\alpha_{bt} = \sum_c w_{cbt} \alpha_{cbt}$ with $\sum_c w_{cbt} = 1$. Using the fitted coefficients, we construct a leave-one-out (LOO) spread for county j: $x_{jbt}^{\text{LOO}} = \hat{\beta}_0 + \hat{\beta}_1 \alpha_{-j,bt} + \hat{\beta}_2 \alpha_{-j,bt} \rho_t + \hat{\beta}_3 \rho_t + \hat{\delta}_b$, $\alpha_{-j,bt} = \frac{\sum_{c \neq j} w_{cbt} \alpha_{cbt}}{1 - w_{jbt}}$. Columns 2-7 present two-stage least-squares (2SLS) results for county-level deposit growth, with the first-stage regressions shown in columns (2)–(4). Deposit growth is calculated from the FDIC Summary of Deposits (end-June each year). Standard errors in columns 2-7 are based on 500 bootstrap replications (sampling clusters of banks).

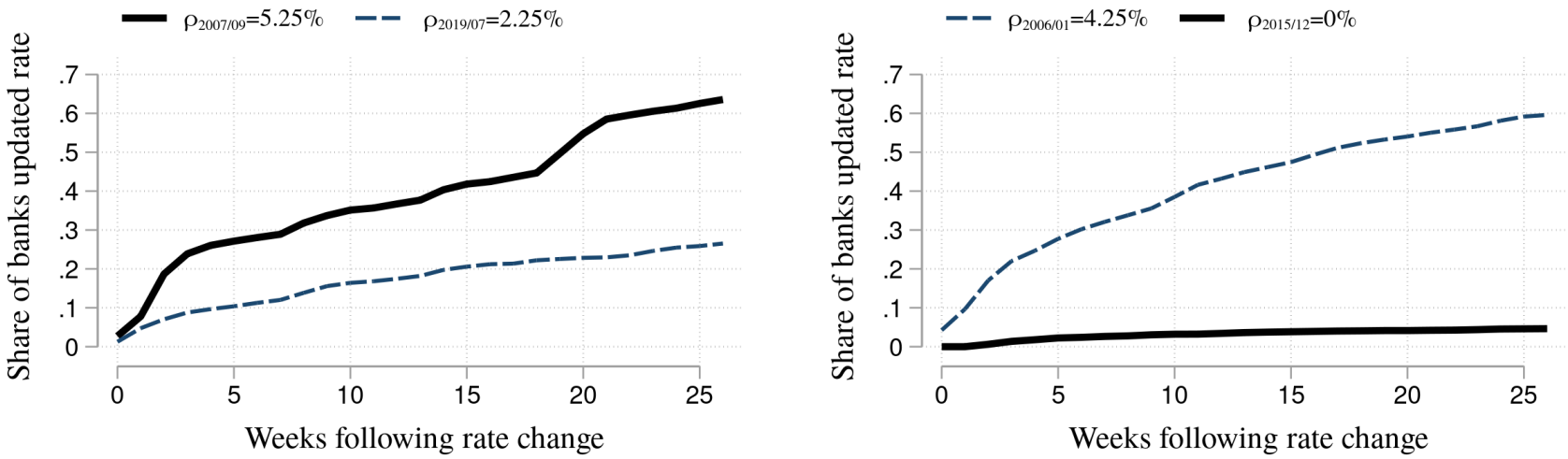
Table 2: Deposit flow (spread) sensitivity in the cross-section

Weekly rate adjustment data are obtained from RateWatch, which reports the MMDA rates that banks post each week by account size. Following Drechsler, Savov, and Schnabl (2017), we focus on $25,000 accounts, also the most populated category in our sample. We emphasize the frequency of adjustments for two reasons. First, any level error in RateWatch quotes does not distort the timing or sign of changes, so bank-specific biases drop out. Second, earlier work on rate adjustment stickiness (e.g., Driscoll and Judson 2013) also relies on frequency measures.

For the most recent tightening cycle, defined by the first hike announcement of December 2015 and extending through 2019, only a small fraction of banks raised MMDA rates. In contrast, following the first rate cut of September 2007 in the 2007–2010 easing cycle, rate reductions were implemented promptly. We plot the "first cut" and "first hike" in solid black in Figure 10. These patterns reproduce the well-known "asymmetric rate-setting" evidence highlighted by Driscoll and Judson (2013). Consistent with our rate-level interpretation, however, we find that for hikes occurring at similarly high prevailing policy rates, e.g. January 2006, the fraction of banks that update and the speed of those updates are roughly *symmetric* to the cut in September 2007.

(a) Rate cuts

(b) Rate hikes



The figure plots the cumulative share of U.S. commercial banks that change the reported rate in the same direction as the policy rate changes on $25,000 money market deposit accounts (MMDAs) in the weeks surrounding FOMC announcements. Week 0 is the week of the FOMC announcement (vertical dashed line). Left panel: the rate cuts of two easing cycles. Right panel: the rate hikes of two tightening cycles. MMDA quotes come from RateWatch.

Figure 10: "Asymmetric" deposit rate adjustments

6. The Deposit Franchise Value and Its Comparative Statics

The level and comparative statics of deposit franchise value (DFV) are important for policymakers, but it is difficult to estimate empirically due to the limited time series variation in the policy rate. This section calibrates the model parameters to inform the level and, more importantly, comparative statics of DFV with respect to the policy rate and inattention.

6.1. Calibration

The model parameters we need to calibrate are (a, b, γ) which govern the intercept, slope and curvature of the withdrawal probability $P(x) = a + \left(\frac{x}{b}\right)^{\gamma}$ in (2).

Identifying inattention τ. The key variable in our model is the depositor inattention τ, which mediates the decay rate $\tau^{-1}P$ of the *deposit balance*. However, our measure of depositor inattention derives from the half-lives of *income*. In Section 3.3, we confirm that our inattention measure correlates with the sensitivity of deposit balance to monetary policy changes. Our cross-sectional evidence in Section 5 further attests to the informativeness of our inattention measure. A concern is that our inattention measure correlates with but misstates the level of the theory-required τ, since the half-lives of income are in weeks and plausibly much lower than the half-lives of balance. Nonetheless, since we calibrate parameters governing P using cross-sectional variations in τ which we discuss next, such misstatement leaves the calibrated deposit decay rate $\tau^{-1}P$ unchanged to the first order.

Cross-sectional moments. Our model makes unique predictions on the cross-sectional variation of deposit rates, pass-through, and flow sensitivity across banks. We use these three moments to calibrate the three parameters (a, b, γ).

Proposition 5 (Calibration)**.** *Given (τ, ρ) which satisfy $\tau < u(\rho)$, the comparative statics of the deposit spread, deposit spread pass-through, and the flow sensitivity with respect to inattention τ are governed by the model parameters (a, b, γ) as, with $x \equiv \rho - r$,*

$$d_1 \equiv \frac{\partial x}{\partial \tau} = \frac{b\rho}{\gamma} \frac{(a + \rho\tau)^{1/\gamma - 1}}{(\gamma - 1)^{1/\gamma}}, \tag{11}$$

$$d_2 \equiv \frac{\partial^2 x}{\partial \rho \partial \tau} = \frac{b(a\gamma + \rho\tau)}{\gamma^2} \frac{(a + \rho\tau)^{1/\gamma - 2}}{(\gamma - 1)^{1/\gamma}}, \tag{12}$$

$$d_3 \equiv (\Delta t)^{-1} \frac{\partial^2 (\log M_{t+\Delta t} - \log M_t)}{\partial x \partial \tau} = \frac{(a\gamma + \rho\tau)}{b\tau^2} \frac{(a+\rho\tau)^{-1/\gamma}}{(\gamma-1)^{1-1/\gamma}}, \tag{13}$$

Conversely, the model parameters (a, b, γ) *are pinned down by these three moments as*

$$\gamma = 1 + \frac{\rho^2 d_2}{\tau^2 d_1^2 d_3}, \quad a = \rho\tau \, \frac{\gamma\rho - d_1/d_2}{\gamma(d_1/d_2 - \rho)}, \quad b = \frac{d_1\gamma}{\rho} \frac{(\gamma-1)^{1/\gamma}}{(a+\rho\tau)^{1/\gamma - 1}} \tag{14}$$

This proposition suggests that we can determine model parameters (a, b, γ) using empirical moments (d_1, d_2, d_3). Note that, the theory-predicted moments (d_1, d_2, d_3) vary with (τ, ρ). As a back-of-the-envelope calibration, we treat our empirical moments $(\hat{d}_1, \hat{d}_2, \hat{d}_3)$ as reflecting the theory-predicted moments at the average $(\bar{\tau}, \bar{\rho})$ during the sample period. Hence

$$\gamma \approx 1 + \frac{\bar{\rho}^2 \hat{d}_2}{\bar{\tau}^2 \hat{d}_1^2 \hat{d}_3}, \quad a \approx \bar{\rho}\bar{\tau} \frac{\gamma\bar{\rho} - \hat{d}_1/\hat{d}_2}{\gamma(\hat{d}_1/\hat{d}_2 - \bar{\rho})}, \quad b \approx \frac{\hat{d}_1\gamma}{\bar{\rho}} \frac{(\gamma-1)^{1/\gamma}}{(a+\bar{\rho}\bar{\tau})^{1/\gamma-1}} \tag{15}$$

We collect the empirical moments and calibrated model parameters in Table 3. For the empirical moments, in Section 5 we have estimated these three regressions: the level of the deposit spread, the deposit spread beta, and the deposit flow sensitivity to spread with respect to the standardized projected inattention $Z_\alpha \equiv \frac{\alpha - \bar{\alpha}}{\mathrm{SD}(\alpha)}$, where $\mathrm{SD}(\alpha)$ is the cross-sectional standard deviation of α averaged across years (Figure 9, Table 2). Further, the projected inattention α is linked to the model parameter τ through $\tau = 1 + \frac{180\, e^\alpha}{\mathrm{HL}^{\mathrm{exp}}}$. We translate the regression coefficients with respect to Z_α into moments with respect to τ.[22] We set the model's inattention parameter in our calibration to the sample average across all depositors, $\bar{\tau} = \frac{1}{N}\sum_{i=1}^N \tau_i$. We choose the policy rate $\bar{\rho}$ to be the prevailing rate in 2019Q4 and estimate the sensitivity of deposit rate with respect to inattention in the same quarter for consistency.

Figure 11 plots the calibrated annual decay rate $\tau^{-1}P(x)$ as a function of the deposit spread x on the left and the implied half-life in annual terms on the right, under a 2.2% policy rate in 2019Q4. In particular, we consider two types of deposit accounts in practice:

[22] Take the regression of deposit spread for example. Let β_Z denote the semi-elasticity of deposit spread r with respect to Z_α: $\frac{\partial r}{\partial Z_\alpha} = \beta_Z$. Because $Z_\alpha = \frac{\alpha - \bar{\alpha}}{\mathrm{SD}(\alpha)}$, we have $\frac{\partial r}{\partial \alpha} = \frac{\beta_Z}{\mathrm{SD}(\alpha)}$. The projected inattention α maps to model parameter τ via $\tau = 1 + \frac{180\, e^\alpha}{\mathrm{HL}^{\mathrm{exp}}}$ and hence $\frac{d\alpha}{d\tau} = \frac{1}{\tau - 1}$. Applying chain rule yields $\frac{\partial r}{\partial \tau} = \frac{\beta_Z}{\mathrm{SD}(\alpha)} \frac{1}{\tau - 1}$.

Moment / Parameter	Symbol	Value
Mean inattention	$\bar{\tau}$	2.60
Deposit spread v. inattention†	$\frac{\partial x}{\partial \tau}\Big\vert_{\bar{\tau},\rho=\rho_{2019Q4}}$	0.0025
Deposit beta v. inattention†	$\frac{\partial^2 x}{\partial \rho\, \partial \tau}\Big\vert_{\bar{\tau}}$	0.075
Deposit flow sensitivity v. inattention††	$\partial^2 \Delta \log M / \partial x\, \partial \tau \vert_{\bar{\tau}}$	1.4
Policy rate	ρ	0.022
Calibrated withdrawal probability $P(\rho - r) = a + ((\rho - r)/b)^\gamma$		
	a	0.0068
	b	0.048
	γ	1.61

† Estimated in Figure 9; note that changes in spread levels with respect to changes in inattention is evaluated in 2019Q4. †† Estimated in Table 2. All α-related coefficients in Figure 9 and Table 2 are obtained for one–standard–deviation changes in α are converted to per–unit changes in τ using $\sigma(\alpha) = 0.25$ together with the $\hat{\alpha} \to \tau$ mapping in the text. Rates and flows are annualized.

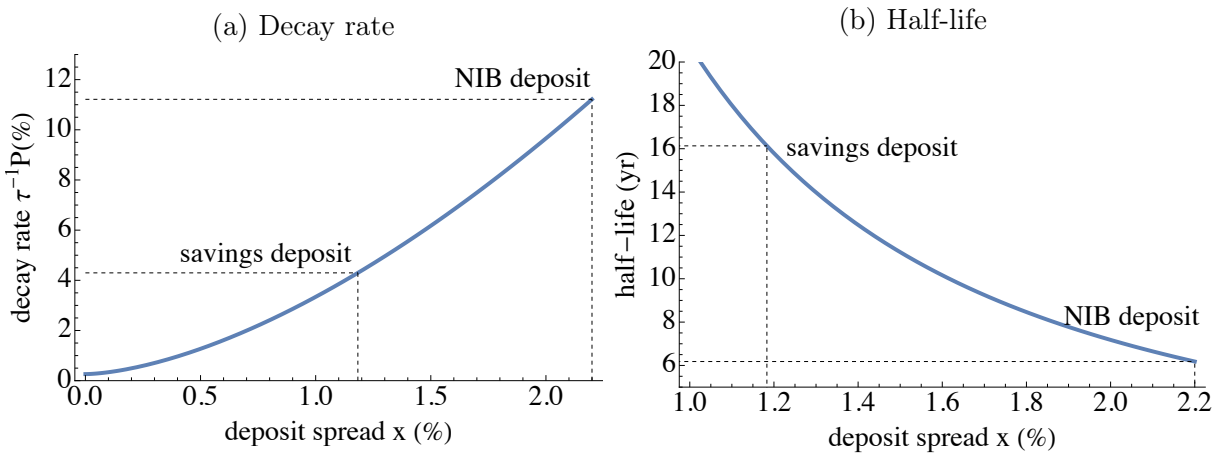
Table 3: Moments and parameters for calibration

savings deposits which pay positive interest rates for which we set the theory-implied optimal r, and the non-interest-bearing (NIB) deposits which pay zero interest rates. We suggest an annual decay rate of about 4% and an implied half-life of about 16 years for savings deposits, and a decay rate of about 11% and a half-life of about 6 years for the NIB deposits. Our calibration builds entirely on the novel cross-sectional predictions with respect to inattention across banks. Yet the calibrated decay rate and half-lives turn out to be in line with numbers in the literature—Drechsler, Savov, Schnabl, and Wang (2025) survey papers and industry reports to conclude with a 10% decay rate.

6.2. Deposit Franchise Value

We compute the deposit franchise value separately for savings deposits with positive deposit rates and for non-interest-bearing (NIB) deposits in the aggregate. We then further examine the deposit franchise value across banks.

The aggregate deposit franchise value. For the savings deposits, our calibration suggests a DFV of 18 cents per dollar of deposits. For the NIB deposits, we find a DFV of 16 cents per dollar of deposits. By the end of 2022, U.S. banks held roughly $10 trillion in savings deposits and $5 trillion in NIB deposits, which collectively lead to about $2.6 trillion of aggregate DFV.



Panels (a) and (b) plot the decay rate $\tau^{-1}P(x)$ and the implied half-life, both in annual terms, under our calibrated parameters (a, b, γ).

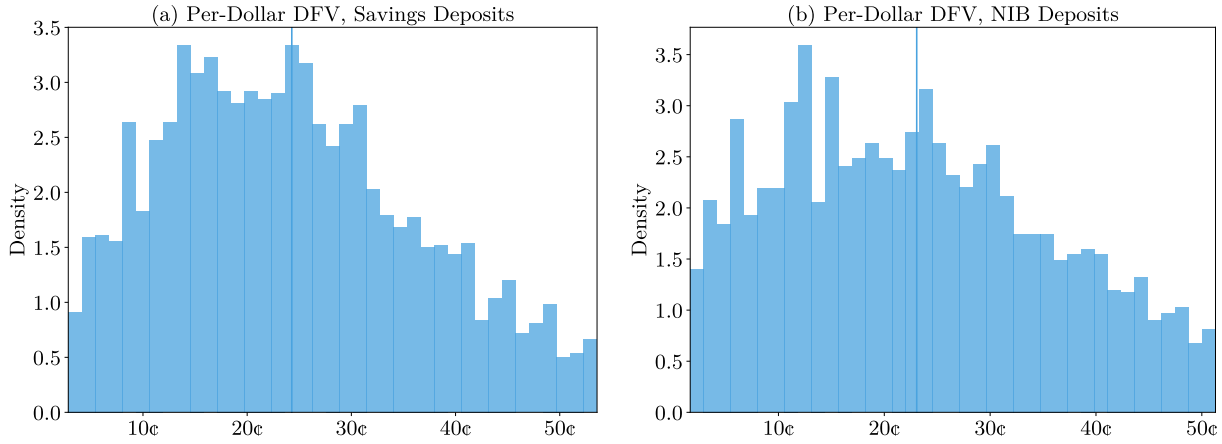
Figure 11: Calibrated decay rate and half-life

As a comparison, Appendix F.3 collects our estimates of banks' observed willingness to pay based on bonuses and promotional rate offers. Banks' observed willingness to pay is of similar magnitude to, but typically below, our calibrated DFV per dollar. While these calibrated numbers are to be taken with a grain of salt, they are consistent in that the cost of attracting deposits may not exceed the profit derived from deposits.

The cross-section of deposit franchise value. We summarize the cross-section of deposit franchise value using bank-level deposit data for the last quarter of 2019. We report per–dollar DFV, which is the object relevant for our comparative statics, and *total* DFV to document the scale and concentration of franchise value across banks. In the calibration, we hold (a, b, γ) fixed across banks, which allows us to highlight the role of inattention though it likely understates the actual cross-sectional heterogeneity.

Figure 12 shows the cross–sectional distributions of DFV per dollar of deposits, $v_{0,i}^k$, across banks indexed by i and deposit accounts indexed by k. Total DFV $V_{0,i}^k = M_{0,i}^k v_{0,i}^k$ reflects both DFV per dollar, and the size of deposits. In the last quarter of 2019, the six largest institutions account for roughly one half of aggregate DFV for both savings and non-interest-bearing deposits, reflecting deposit concentration. Table 4 lists the top six banks by total DFV for savings and non-interest-bearing deposits, reporting *Bank Name*, *DFV*, and *DFV per dollar*. The banking industry's deposit-size distribution concentrates DFV at the very

top of the bank size distribution.



Bank–level attention $\alpha_{i,2019}$ is constructed by aggregating county–level inattention projections with 2019 deposit weights from the FDIC Summary of Deposits: $\alpha_{i,2019} = \sum_c w_{ic,2019}\,\alpha_{c,2019}$, $w_{ic,2019} \equiv \frac{\text{deposits}_{ic,2019}}{\sum_{c'} \text{deposits}_{ic',2019}}$, which is then used to compute the bank-level inattention index τ_i as detailed in Section 6.1.

Figure 12: The cross-section of per-dollar deposit franchise value, 2019Q4

(a) Savings Deposits			(b) Non-interest-bearing Deposits		
Bank Name	DFV (mn)	DFV (¢/$)	Bank Name	DFV (mn)	DFV (¢/$)
Wells Fargo	147.11	13.59	Wells Fargo	45.30	11.35
Bank of America	141.36	12.38	Bank of America	44.77	10.06
JPMorgan Chase	102.65	10.88	JPMorgan Chase	34.01	8.51
SunTrust and BB&T	54.25	19.27	SunTrust and BB&T	16.44	17.68
TD Bank	35.26	14.46	PNC Bank	10.04	13.73
Citibank	34.94	10.31	BNY Mellon	9.96	18.32

Size of bank-level savings deposits D_i^s and non-interest-bearing deposits D_i are from Call Reports. Bank–level attention $\alpha_{i,2019}$ is constructed by aggregating county–level inattention projections with 2019 deposit weights from the FDIC Summary of Deposits: $\alpha_{i,2019} = \sum_c w_{ic,2019}\,\alpha_{c,2019}$, $w_{ic,2019} \equiv \frac{\text{deposits}_{ic,2019}}{\sum_{c'} \text{deposits}_{ic',2019}}$, which is then used to compute the bank-level inattention index τ_i as detailed in Section 6.1.

Table 4: Banks with largest deposit franchise value, 2019Q4

6.3. The Impact of Digital Banking

For savings deposits, the elasticity of DFV with respect to inattention under our calibration is $\frac{\partial \log V_0}{\partial \log \tau} = 0.66$. For NIB deposits, the calibrated sensitivity is 0.84. They imply that a 10% reduction in inattention τ reduces the deposit franchise value of savings

deposits by roughly 6.6% and that of NIB deposits by roughly 8.4%. That means, it wipes out about $186 billion of aggregate DFV.

Our calibration suggests that digital banking advances that keep depositors alert (Koont, Santos, and Zingales 2024)—such as rate alerts, open-banking APIs that make comparison of rates effortless, or disclosure rules that force banks to highlight better offers—may substantially erode the market power and DFV of banks.

In contrast, since bank market power originates from depositor inattention, it may not be eliminated by competition. New entrants or new deposit products may advertise an attractive headline rate to start with, but once depositors settle in and become inattentive, banks are incentivized to lower the deposit rates or not to keep up with an increase in the policy rate to profit from inattentive deposits—especially in reality, ex ante commitment to always offer the highest available rate is hardly credible.[23]

6.4. Dollar Duration of Deposit Franchise Value

We evaluate the dollar duration of per-dollar DFV, $-\frac{\mathrm{d}V_0/M_0}{\mathrm{d}\rho}$. Under the 2.2% policy rate in 2019Q4, the dollar duration of savings deposits is 2.8 and that of NIB deposits is 3.6. That means, if the policy rate increases by 1% from 2.2%, DFV will fall by 2.8 cents per dollar of deposits for savings deposits and by 3.6 cents per dollar for NIB deposits.

Figure 13 traces out the duration of two types of deposits as ρ varies. When the policy rate is sufficiently low, banks optimally post a zero rate for all deposits. In this case, the duration of deposit franchise is *negative*: an increase in the policy rate raises the spread one-for-one but since inattentive depositors are insensitive to rate and do not withdraw much faster, the net present value rises. Deposits therefore hedge interest rate risk, as emphasized by Drechsler, Savov, and Schnabl (2021) and Drechsler, Savov, Schnabl, and Wang (2025). For example, under the calibration, at a policy rate of $\rho = 25$ bp, $-\frac{\mathrm{d}V_0/M_0}{\mathrm{d}\rho} = -8.5$, that is, a 1% rise in policy rate adds 8.5 cents per dollar of franchise value, i.e. a *negative* duration.

[23] A recent example is the litigation over Capital One's "360 Savings" and "360 Performance Savings" accounts. The Consumer Financial Protection Bureau (CFPB) alleges that, during the 2022–24 tightening cycle, Capital One froze rates on the 360 Savings account at low levels despite promising to offer one of the "best" interest rates, created and marketed a virtually identical 360 Performance Savings account that pays higher interest rates, and kept the 360 Savings account holders in the dark. See the CFPB press release.

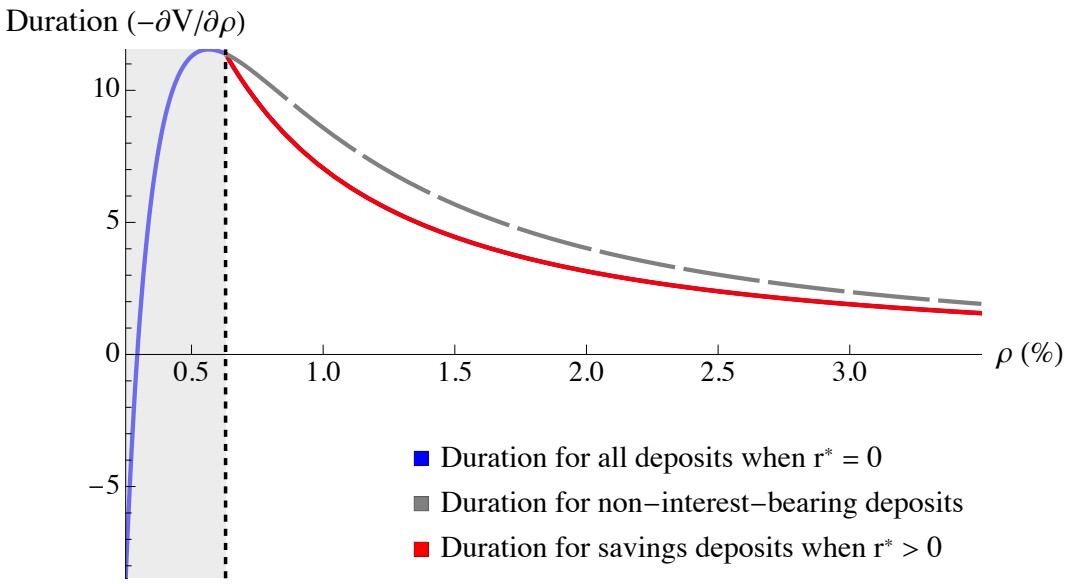


Figure 13: Duration of DFV

The figure plots the model-implied per-dollar DFV duration for non-interest-bearing (NIB) and savings deposits over policy rates ρ. Durations are computed from the baseline calibration summarized in Table 3. At very low rates ($\rho < 30$ bp) banks optimally post a zero deposit rate, franchise value rises as rates fall, generating a *negative* duration for both deposit types. For intermediate rates (30 bp $\leq \rho \leq$ 63 bp) outside options become attractive and outflows start; at this point the duration turns positive while posted deposit rates remain at zero. Once the policy rate exceeds 63 bp, banks optimally pay a positive deposit rate for savings deposits; the duration of savings deposits then drops below that of NIB deposits because banks can adjust the savings rate to trade off margin against attentive outflows, whereas NIB accounts must still pay zero.

However, as the policy rate increases, the DFV duration turns positive. When ρ is between 30 bp and 63 bp, while banks still post a zero deposit rate, as the policy rate ρ rises, deposit outflow accelerates, lowering DFV. Once the policy rate is high enough ($\rho > 63$ bp), banks optimally pay a positive deposit rate. At this point the duration of savings deposits starts to diverge from NIB deposits. In particular, the ability to adjust the deposit rate in response to policy rate changes helps banks to achieve higher DFV, i.e. a lower duration.

Operating costs and duration. Discussions above abstract from operating costs, yet these can play an important role in the duration of DFV, as suggested by Drechsler, Savov, and Schnabl (2021), DeMarzo, Krishnamurthy, and Nagel (2024) and Drechsler, Savov, Schnabl, and Wang (2025). We theoretically analyze how variable and fixed operating costs affect the DFV duration in Appendix A.4. In summary, when the bank optimally sets an interior deposit rate, variable operating costs per dollar of deposits do *not* affect the sign of the DFV duration per se. By contrast, sufficiently high *per-period fixed operating costs for existing*

deposits can make the DFV duration negative: a higher policy rate increases discounting and lowers the present value of those future fixed costs. It is empirically challenging to allocate banks' operating expenses between deposits and other business lines (such as lending), or to separate fixed from variable components.[24] We instead extend our baseline duration calibration in two ways to show how fixed operating costs can flip the sign of DFV durations across banks, depending on depositor inattention and the policy rate.

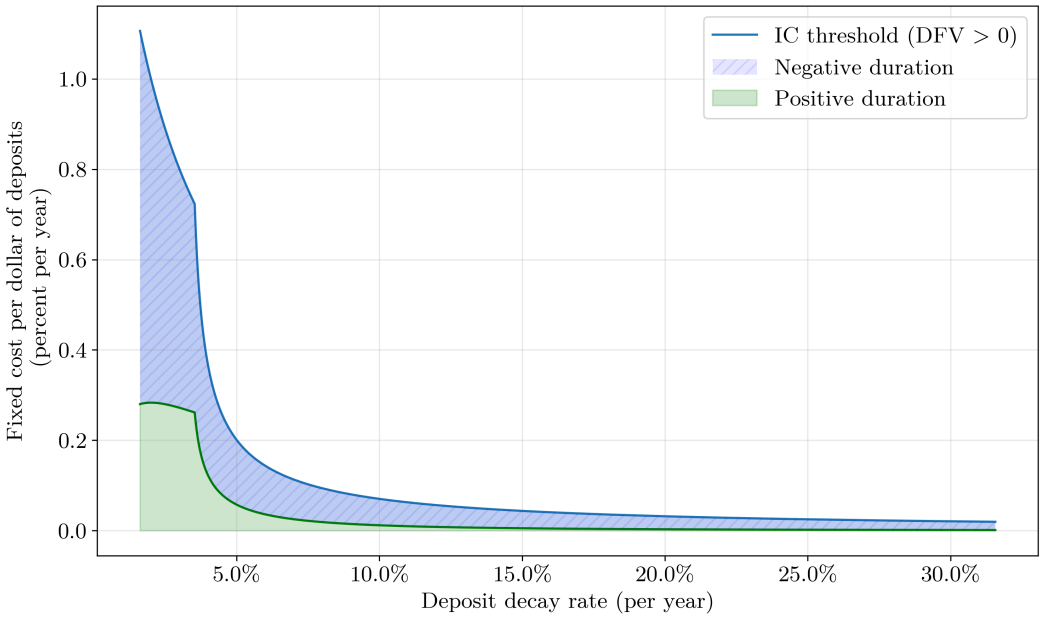


Figure 14: The duration of DFV: deposit decay rate and fixed operating costs

This figure plots the fixed operating cost per dollar of deposits (percent per year) against bank-level theory-implied decay rate calibrated in Section 6.1, using the 2019Q4 policy rate. Blue line indicates the positive-DFV threshold, with costs below which the bank operates a profitable deposit business for existing deposits. Green line separates the negative and positive duration areas. Fixed costs above (/below) the green line imply a negative (/positive) duration.

We start with analyzing how fixed operating costs per dollar of existing deposits affect DFV durations across banks with different levels of depositor inattention at a given policy rate. Figure 14 plots, against the annual deposit decay rate, two cost thresholds (percent per dollar per year): the level where DFV equals zero (blue line) and the level where DFV durations equals zero (green line), using the end-of-2019 calibration in Section 6.1. The deposit decay rate is implied by the model's optimal deposit rate and rises with depositor

[24] For example, DeMarzo, Krishnamurthy, and Nagel (2024) measure franchise operating costs (covering *both* loans and deposits) as the sum of salaries, premises, and other non-interest expenses net of deposit service charges, card fees, and related offsets.

attention; lower decay therefore indicates higher inattention. When inattention is high (low decay), the optimal deposit rate is zero, so banks can sustain relatively large fixed costs while still earning profits from existing deposits. As depositors become more attentive, banks begin paying a positive deposit rate, and the maximum sustainable fixed cost falls quicker as deposit decay becomes more important. The blue curve is the incentive-compatibility frontier: DFV is positive only below this curve; above it, banks would not continue serving existing depositors. The green curve gives, for each decay rate, the fixed cost at which the DFV duration is zero. When per-period fixed costs are high (blue-hatched region above the green curve), the duration is *negative*; when fixed costs are lower (below the green curve), the duration is positive.

(a) When banks optimally set zero rates

(b) When banks optimally set non-zero rates

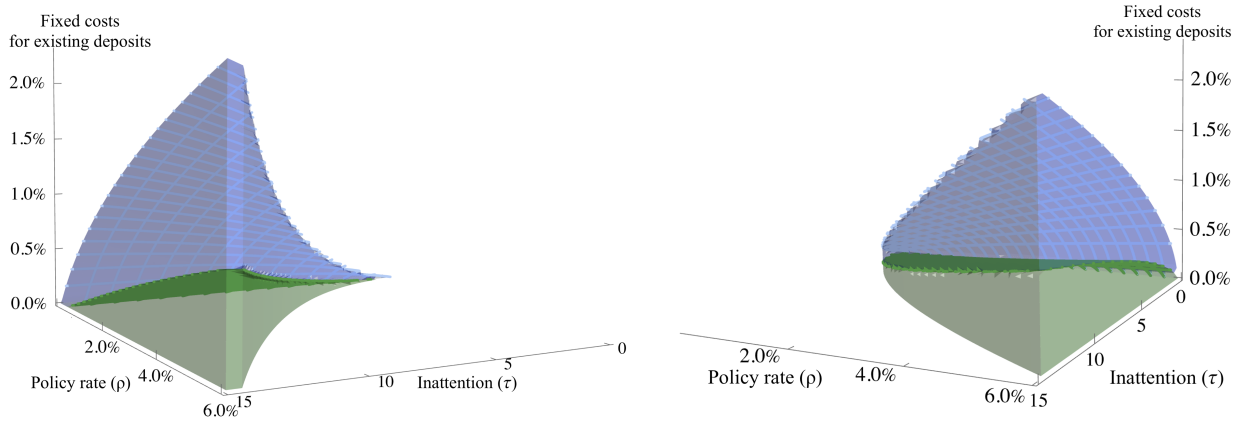


Figure 15: The duration of DFV: fixed operating costs, inattention, and the policy rate

Blue wired surface is the incentive compatible frontier (banks continue serving depositors only if the fixed costs to service existing deposits are below this surface; note that banks may charge a zero deposit rate when depositors are sufficiently inattentive given the policy rate, which corresponds to panel a; panel b summarizes the case when the bank optimally chooses a non-zero deposit rate). Within this set, the blue wedge marks where the duration of DFV is negative; the remaining green volume has a positive duration. The fixed costs to service existing deposits is in percent per dollar of deposits per year, and the policy rate (ρ) is the annualized policy rate in percentage terms; τ is the inattention parameter. Calibration of DFV follows Section 6.1.

More generally, we examine how fixed operating costs change the sign of the DFV duration for banks with different depositor inattention under varying policy rates. In the baseline calibration, Figure 13 summarizes the DFV duration for a given level of inattention and zero fixed cost. Figure 15 now turns that slice into a 3D map with varying fixed operating costs and inattention levels. In this figure, the blue surface is the incentive-compatible frontier;

banks operate the deposit business only below this surface. Inside this viable region, the blue wedge collects combinations where the duration of DFV is negative, and the green region is where the duration is positive. Panel (a) covers states where the bank optimally keeps the deposit rate at zero; panel (b) covers states where the bank pays a positive rate. With sufficiently large fixed costs, the DFV duration is negative over a wide range of policy rates in both cases. This is because the cost-discounting effect dominates: a higher policy rate reduces the present value of costs, so DFV rises.

Figure 15 highlights that for a given distribution of costs and inattention, a higher policy rate expands the number of banks with a positive DFV duration. These findings complement existing evidence on time-varying deposit funding stability (Blickle, Li, Lu, and Ma 2025) from a valuation perspective: at higher levels of the policy rate, more banks shift into a positive DFV duration, increasing the aggregate interest rate risk in the banking sector.

6.5. Demographics, Inattention, and the Deposit Franchise

In Section 5, we forecast transformed depositor inattention α_{ct} using gradient boosting, which flexibly captures non-linear interactions. To summarize which observable features are most predictive in a transparent way, we also fit a sparse linear model (LASSO) on 2010 county demographics with $\alpha_{c,2010}$ as the target. LASSO selects a concise set of covariates and yields signs indicating whether a one-standard-deviation increase in a predictor is associated with more or less attention.

We summarize the correlational patterns from the sparse linear model at a high level. Gender and race correlate with inattention: counties with larger shares of women, non-Hispanic Whites, and Asians tend to be more attentive (lower inattention). Age structure also matters—more children (under 18) is associated with higher inattention. Household composition and tenure point in the same direction as attentiveness: places with more renters, unmarried-partner households, and single-mother households are, on average, more attentive. These associations are descriptive rather than causal; illustrative magnitudes and full estimates are in Appendix Table A-5. The correlation between demographics and inattention suggests potential distributional effects of digital banking and monetary policy.

7. Conclusion

Our main finding is that depositor inattention gives rise to bank market power in the deposit market. Drawing on transaction records for millions of depositors, we provide direct evidence that many depositors manage their bank accounts only sporadically, and that such depositor inattention varies systematically with demographics and socioeconomic characteristics. We develop a dynamic model in which the bank enjoys a temporal monopoly over inattentive depositors and faces an intertemporal trade-off: raising the spread today boosts profits, but lowers the deposit base in the future as depositors withdraw. The model predicts and the data confirm that depositor inattention explains cross-bank differences in deposit spreads, monetary policy pass-through, and deposit flow sensitivity.

We use the empirical moments to calibrate deposit franchise value. We estimate that banks derive about 18 cents of franchise value per dollar of savings deposits and suggest a total deposit franchise value of $2.6 trillion at the end of 2022. Further, a 10% increase in attention would erase 6.6% of deposit franchise value for savings deposits at a 2.2% policy rate. Our theory clarifies the forces governing the duration of deposit franchise value and suggests that it is negative under a low policy rate and turns positive as the policy rate rises.

Our findings speak to several policy questions. First, rate hikes widen spreads especially for banks with more inattentive depositors, muting monetary pass-through to deposit rates. Central banks thus face an attention-dependent deposits channel in the transmission of monetary policy. Second, bank's deposit franchise value hinges on inattention. Digital banking services that alert households more may erode a key cushion in bank funding.

This paper highlights systematic inattention in deposits, opening several research avenues. First, how does attention to liquidity fluctuate over the business cycle, and with shifts in economic uncertainty? What does that imply for banks' funding stability? Second, what happens when changes in the policy rate and attention strike simultaneously, as in regional banking crisis in 2023? Finally, the welfare implication of digital banking rests on whether higher deposit rates fully compensate households for the cost of paying attention—a fascinating open question for future research.

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Online Appendix for "Banking on Inattention"

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A. Theory Extensions

A.1. Deposit Inflow and Steady State Deposit Balance

Here we extend the baseline model to allow for deposit inflow, potentially subject to an acquisition cost paid by the bank, and study its implications for deposit balance.

Specifically, we replace (1, 3) by assuming that the deposit balance evolves according to

$$\dot{M}_t = -\tau^{-1} P(x_t) M_t + I_t \tag{16}$$

and the deposit franchise value is

$$V_0 = \max_{\{r_t \geq 0, I_t \geq 0\}_{t \geq 0}} \int_0^\infty \mathrm{e}^{-\rho t}(x_t M_t - C(I_t))\mathrm{d}t \tag{17}$$

in which I_t is the deposit inflow and $C(I_t)$ is the acquisition cost. We consider two cases:

a) *Constant free inflow I.* This can be due to direct deposits of income. In this case, we fix $I_t \equiv I, C(I_t) \equiv 0$.

b) *Quadratic acquisition cost $C(I_t) = \frac{\kappa}{2} I_t^2$.* This will give rise to an interior solution of acquisition I_t.

Proposition 6. *i. (Deposit rate) The bank charges a deposit rate r that is the same as characterized in Proposition 1.*

ii. (Deposit inflow and balance) The deposit balance evolves as

$$M_t = \frac{I}{\delta}(1 - \mathrm{e}^{-\delta t}) + M_0 \mathrm{e}^{-\delta t} \tag{18}$$

in which $\delta = \tau^{-1} P(\rho - r)$ is the decay rate and I a) is the constant in the constant-free-

inflow case, or b) satisfies in the quadratic-acquisition-cost case

$$\underbrace{\kappa I}_{\text{marginal cost}} = \underbrace{\frac{\rho - r}{\tau^{-1}P(\rho - r) + \rho}}_{\substack{\text{marginal benefit} \\ = \text{per-dollar DFV of initial deposits}}} \tag{19}$$

In the quadratic-acquisition-cost case, both the inflow I and the steady-state deposit balance I/δ increase in inattention τ and decreases in the policy rate ρ.

iii. (Deposit flow sensitivity) The deposit flow sensitivity holding fixed inflow I is the same as characterized in Proposition 2.

iv. (Deposit franchise value) The deposit franchise value (DFV) equals

$$V_0 = \frac{\rho - r}{\tau^{-1}P(\rho - r) + \rho}\left(M_0 + \frac{I}{\rho}\right) - \frac{C(I)}{\rho} \tag{20}$$

which increases in τ. When the deposit spread is interior, i.e., $r \in (0, \rho)$, DFV decreases in the policy rate ρ in both the case of constant free inflow and that of quadratic acquisition cost.

This proposition generalizes the main results in the baseline model to incorporate inflows. It first suggests that, in the presence of deposit inflows, the optimal deposit rate is the same as in the baseline model. That is, the rate-setting is decoupled from the optimal acquisition. The reason is that the deposit franchise value is linear in the initial deposit balance M_0. Thus the bank sets the deposit rate to maximize the discounted profits from each dollar of deposits in the same way, no matter whether it is inside the bank or outside the bank (but can be acquired).

It is this per-dollar DFV of initial deposits that pins down the optimal size of acquisition. The intuition is the same as the classic investment-q problem, where the marginal cost of investment equals the marginal q, once we recognize that the per-dollar DFV of initial deposits is the average q and corresponds to the marginal q since DFV is linear in initial deposit size M_0. As the bank attracts a constant deposit inflow I, the deposit balance converges from its initial level M_0 to its steady state level I/δ. Both the deposit inflow I and the steady-state deposit balance I/δ are higher if the depositors are more inattentive (higher τ) or if the policy rate ρ is lower.

Last, in terms of the deposit franchise value taking into account inflows, it is higher if inattention τ is higher, since the bank must strictly do better when facing a slower decay rate in (16). When the optimal deposit rate r is interior, we can evaluate the duration of

DFV by treating the deposit spread $\rho - r$ and the inflow I as fixed, since they are optimally chosen to maximize DFV. In that case, the higher the policy rate, the lower DFV, due to a higher discount rate on future profits.

A.2. Time-Varying Policy Rate

Here we consider a time-varying policy rate ρ_t and pass-through of a transitory change in the policy rate. We show that the comparative statics of the deposit rate r_t and pass-through with respect to inattention continues to hold with the same sign, and the pass-through is smaller when the policy change is more persistent.

We assume a time-varying policy rate ρ_t that is always positive and converges to a positive level $\rho > 0$ as $t \to \infty$. The deposit franchise value in (3) the bank optimizes becomes, with $x_t \equiv \rho_t - r_t$,

$$\max_{\{x_t \in [0,\rho_t]\}_{t\geq 0}} V_0 = \int_0^\infty \mathrm{e}^{-\int_{s=0}^t \rho_s \mathrm{d}s} x_t M_t \mathrm{d}t \tag{21}$$

which is still subject to the law of motion (1) for the deposit base.

Proposition 7 (Optimal deposit rate and pass-through)**.** *When the bank sets an optimal interior deposit rate $r_t \in (0, \rho_t)$, the associated deposit spread $x_t = \rho_t - r_t$ satisfies the following differential equation*

$$\frac{(\gamma-1)\dot{x}_t}{x_t} = \tau^{-1}\left[(\gamma-1)\left(\frac{x_t}{b}\right)^\gamma - a\right] - \rho_t \tag{22}$$

or equivalently, in the integral form,

$$x_t^{-\gamma} = \tau^{-1}\frac{\gamma}{b^\gamma}\int_t^\infty \exp\left\{-\frac{\gamma}{\gamma-1}\int_t^s (\rho_u + a\tau^{-1})\mathrm{d}u\right\}\mathrm{d}s \tag{23}$$

The optimal deposit rate r_t has the following properties:

(a) the deposit rate r_t is lower when τ is higher, i.e., $\frac{\partial r_t}{\partial \tau} < 0$;

(b) the intertemporal pass-through $\frac{\partial r_t}{\partial \rho_s}$ for $s > t$ is negative and infinitesimal.

Formula (23) characterizes the optimal deposit spread x_t as a forward-looking discounted sum. As in the baseline model, the intuition arises from the intertemporal margin-outflow trade-off a bank faces: at each point of time t, a higher spread x_t means a higher profit margin, which raises the instantaneous profits, but accelerates the outflow, leading to a smaller deposit base in the future. The importance of the outflow consideration depends

on the future profit margin and future discount rate, and hence hinges on the future policy rate ρ_s with $s > t$. Therefore, the optimal deposit spread x_t responds to all future policy rates. Nonetheless, we show that, banks with more inattentive depositors (higher τ) set higher deposit spreads x_t, i.e., lower deposit rates r_t. Finally, future rate hikes make the bank care less about its future deposit base, so it optimally lowers today's deposit rate to enjoy a higher spread now, producing a negative intertemporal pass-through.

A further implication of (23) is that, the path of optimal deposit spread x_t is continuous, even if the path of the policy rate ρ_t is discontinuous.[25] In setting the deposit spread x_t, the bank trades off profit margin and deposit outflow, which matters for future profits. The future path of policy rate ρ_u governs the discounting factor between current t and any future s, i.e., $\mathrm{e}^{-\int_t^s \rho_u \mathrm{d}u}$. Even if the path of ρ_u is discontinuous, the discounting factor between t and future s, which is an integral, is continuous in s. Hence the optimal path of deposit spread x_t is continuous.

By the same intertemporal margin-outflow trade-off logic, if future policy rate ρ_s goes up, the bank discounts future profits more and hence infinitesimally raises its current profit margin x_t (i.e., lowers its current deposit rate r_t) to raise current profits while tolerating a larger outflow.

Proposition 8 (Pass-through of transitory shock)**.** *In response to a small transitory policy rate shock around a steady state $\rho_t = \rho + \Delta\rho \mathrm{e}^{-\phi t}$, the optimal interior deposit spread satisfies $r_t = r + \Delta r \mathrm{e}^{-\phi t}$, with the steady-state deposit rate*

$$r = \rho - b\left(\frac{\rho\tau + a}{\gamma - 1}\right)^{1/\gamma} \tag{24}$$

which coincides with (7), and pass-through

$$\frac{\Delta r}{\Delta \rho} = 1 - \frac{x}{\phi(\gamma - 1) + \tau^{-1}\gamma(\rho\tau + a)} \tag{25}$$

which is lower when inattention τ is higher or when the policy shock is more persistent (smaller ϕ).

This proposition formalizes the pass-through in response to a transitory shock. It suggests that, when inattention τ is higher, the pass-through is smaller, as in the baseline case with a permanent policy shock (nested by $\phi = 0$).

[25] If the policy rate ρ_t is discontinuous and the deposit spread x_t is continuous, the deposit rate $r_t = \rho_t - x_t$ is discontinuous and jumps whenever ρ_t jumps.

In addition, when the shock is more persistent (smaller ϕ), the pass-through into deposit rate is smaller. At a high level, the intuition is that a more persistent policy shock discounts future profits more for the bank and hence incentivizes the bank to set a larger deposit spread now to increase current profits. We could also connect this result to Proposition 7. From the viewpoint of time t, such a transitory policy shock consists of a change in the time-t policy rate ρ_t as well as a series of changes in future policy rate ρ_s. In response to any change in the future policy rate ρ_s, the bank will infinitesimally lower the current deposit rate r_t. Therefore, the more persistent the policy shock, the smaller the increase in the current deposit rate r_t.

A.3. Deposit Decay Rate Dependent on Deposit Spread and Policy Rate

Here we consider an extension of the baseline model to take into account potential direct dependence of the withdrawal probability on the policy rate, i.e., $P(x, \rho)$. Such a direct dependence may affect the sign of the deposit franchise value duration.

Specifically, we assume that deposits decay at

$$\dot{M}_t / M_t = -\tau^{-1} P(x, \rho) \tag{26}$$

in which $x \equiv \rho - r$ is the deposit spread and ρ is the policy rate with a more general functional form for the withdrawal probability P than (2)

$$P(x, \rho) = a + \frac{x^\gamma \rho^{-\eta}}{b^\gamma} \tag{27}$$

with $a \geq 0, b > 0, \gamma > 1, \gamma > \eta \geq 0$. As in the baseline model, $\gamma > 1$ ensures the convexity of withdrawal probability P in x and hence the concavity of the bank's profits function. We consider $\eta > 0$ to be an extension of the baseline model to incorporate potential diminishing sensitivity of depositors—given the same deposit spread x, the higher the policy rate, the smaller the withdrawal probability. Further, $\gamma > \eta$ ensures that $P(\rho - r, \rho)$ increases in ρ as long as $r \in [0, \rho]$—withdrawal rate increases in the policy rate when the deposit rate r is held fixed.

The bank maximizes the deposit franchise value as follows, which generalizes (4)

$$\max_{x \in [0, \rho]} V_0 = \frac{x}{\tau^{-1} P(x, \rho) + \rho} M_0 \tag{28}$$

We extend the propositions in Section 4.2 under an additional condition $\gamma > 1 + \eta$. We show that the comparative statics of deposit rate, pass-through, and deposit flow sensitivity

continue to be true, whereas the duration of DFV may be flipped to negative even when banks charge positive deposit rates.

Proposition 9. *i. (Optimal deposit rate and pass-through) Define the threshold function*

$$u(\rho) = \frac{(\gamma-1)\rho^{\gamma-\eta}/b^{\gamma} - a}{\rho} \tag{29}$$

which increases in ρ. If $\tau > u(\rho)$, the bank sets $r = 0$. If $\tau \leq u(\rho)$, the bank sets a positive deposit rate

$$r = \rho - b\left(\frac{(\rho\tau + a)\rho^{\eta}}{\gamma - 1}\right)^{1/\gamma} \tag{30}$$

which satisfies $\frac{\partial r}{\partial \tau} < 0, \frac{\partial r}{\partial \rho} \in (0,1), \frac{\partial^2 r}{\partial \rho \partial \tau} < 0$.

ii. (Deposit flow sensitivity) The deposit flow sensitivity with respect to deposit spread $(\Delta t)^{-1}\frac{\partial(\log M_{t+\Delta t} - \log M_t)}{\partial x}$ declines in magnitude in τ.

iii. (Deposit franchise value) The deposit franchise value increases in τ. Further, when $\tau < \min\{u(\rho), \frac{a\eta}{\rho(\gamma-1-\eta)}\}$, the bank charges an optimal $r > 0$ while its deposit franchise value increases in ρ.

In particular, Proposition 9 suggests that, in the presence of the direct effect of ρ on withdrawal probability $P(x, \rho)$, DFV may increase in the policy rate ρ even when the bank optimally sets a positive deposit rate r. In this case, a higher ρ decelerates the outflow, which dominates the effect of higher discount rate and leads to an increase in DFV.

A.4. Variable and Fixed Operating Costs

Here we consider an extension of the baseline model to take into account variable operating costs (Drechsler, Savov, Schnabl, and Wang 2025) and fixed operating costs (Drechsler, Savov, and Schnabl 2021, DeMarzo, Krishnamurthy, and Nagel 2024), and show that the former by itself does not change the sign of the DFV duration whereas the latter may.

Specifically, we assume that the deposit franchise value follows, extending (3),

$$\max_{\{r_t \geq 0\}_{t \geq 0}} V_0 \equiv \int_0^{\infty} \mathrm{e}^{-\rho t}\left[(\rho_t - r_t - c)M_t - F\right] \mathrm{d}t \tag{31}$$

in which $c \geq 0$ stands for a variable operating cost per dollar of deposit and $F \geq 0$ represents a fixed operating cost which applies regardless of the deposit size (e.g., operating a bank branch).

We extend the propositions in Section 4.2. We show that the comparative statics of deposit rate, pass-through, and deposit flow sensitivity continue to be true. Further, when banks charge positive deposit rates, the presence of variable operating cost does not affect the sign of the DFV duration, whereas the existence of fixed operating cost makes the DFV duration more negative.

Proposition 10. *i. (Optimal deposit rate and pass-through) Define the threshold function*

$$u(\rho) = \frac{(\gamma-1)\rho^{\gamma-1} - c\gamma\rho^{\gamma-2} - ab^{\gamma}\rho^{-1}}{b^{\gamma}} \tag{32}$$

which increases in ρ as long as $\rho > c$. If $\tau > u(\rho)$, the bank sets $r = 0$. If $\tau \leq u(\rho)$, the bank sets a positive deposit rate that satisfies

$$-(\gamma-1)(\rho-r)^{\gamma} + c\gamma(\rho-r)^{\gamma-1} + (a+\rho\tau)b^{\gamma} = 0 \tag{33}$$

which satisfies $\frac{\partial r}{\partial \tau} < 0, \frac{\partial r}{\partial \rho} \in (0,1), \frac{\partial^2 r}{\partial \rho \partial \tau} < 0$.

ii. (Deposit flow sensitivity) The deposit flow sensitivity with respect to deposit spread $(\Delta t)^{-1}\frac{\partial(\log M_{t+\Delta t} - \log M_t)}{\partial x}$ declines in magnitude in τ.

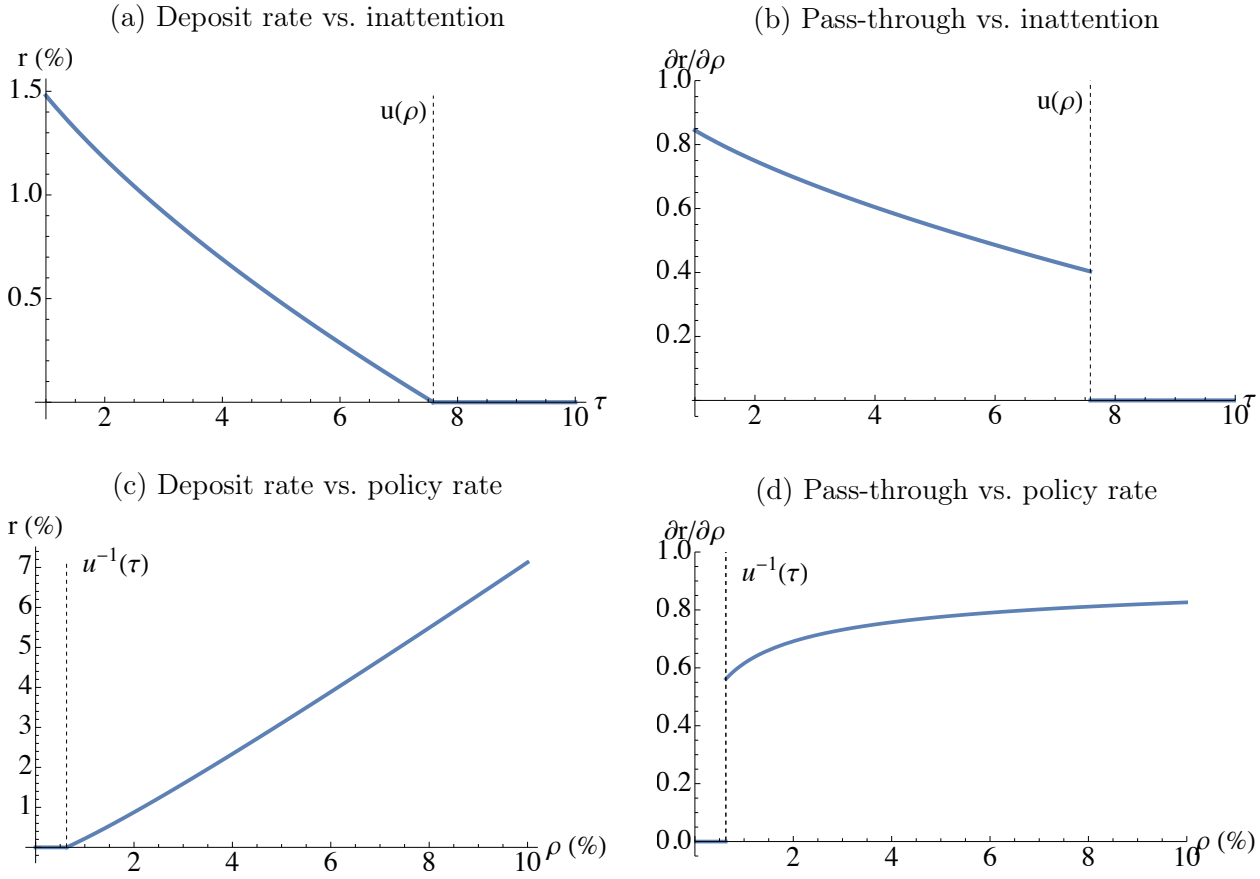
iii. (Deposit franchise value) The deposit franchise value increases in τ. Further, the bank charges an optimal $r > 0$ while its deposit franchise value increases in ρ, when $\tau < u(\rho)$ and the fixed operating cost is large relative to the deposit size such that

$$\frac{F}{M_0} > \frac{(\rho - r - c)\rho^2}{(\tau^{-1}P(\rho-r) + \rho)^2} \tag{34}$$

This proposition suggests that, the presence of the variable operating cost c by itself does not alter the sign of the DFV duration. That is because the bank optimally sets the deposit rate, taking into account the variable operating cost. However, a large enough fixed operating cost F can overturn the sign of the DFV duration relative to the baseline model, since a higher discount rate lowers the present value of such a fixed operating cost.

B. Properties of Optimal Rate and Pass-Through

Figure A-1 panels (a) and (b) show that both the optimal deposit rate r and the pass-through $\partial r/\partial\rho$ decline in τ, and each is zero once $\tau \geq u(\rho)$, as suggested by Proposition 1. Panels (c)–(d) show that $r(\rho)$ is increasing and convex, while the pass-through $\partial r/\partial\rho$ rises with ρ. The increase in pass-through with ρ is consistent with evidence reported in Greenwald, Schulhofer-Wohl, and Younger (2023).



Panels (a) and (b) plot the optimal deposit rate r and the pass-through $\partial r/\partial\rho$ as functions of inattention τ, for the calibrated parameters in Section 6 and policy rate $\rho = 2.2\%$, as implied by Proposition 1. The vertical dashed line marks the threshold $u(\rho)$; beyond it both objects are zero. Panels (c) and (d) hold $\tau = 2.6$ and vary ρ. In (c) $r(\rho)$ is increasing and convex, while in (d) pass-through increases in ρ but at a decreasing rate (concave).

Figure A-1: Banks' rate setting: comparative statics in τ and ρ

C. Proofs

C.1. Proofs for the Baseline Model

Proof of Proposition 1. First, to establish the interior solution, we notice from (5) that

$$\left.\frac{\partial V_0}{\partial x}\right|_{x=0} = \frac{1}{\rho + \tau^{-1}a} M_0 > 0$$

which means that the optimal $x > 0$. Without constraint $x^* \leq \rho$, the optimal x satisfies

$$\frac{\partial V_0}{\partial x} = \frac{\rho + \tau^{-1}P(x) - \tau^{-1}xP'(x)}{(\tau^{-1}P(x) + \rho)^2} M_0 = 0$$

And the 2nd-order derivative evaluated at this optimal x is

$$\left.\frac{\partial^2 V_0}{\partial x^2}\right|_{x^*} = \frac{-\tau^{-1}xP''(x)}{(\tau^{-1}P(x) + \rho)^2} M_0 \tag{35}$$

which is negative since P is convex. Thus V_0 increases from $x = 0$ until the optimal x and then decreases afterward. This optimal x satisfies

$$xP'(x) - P(x) = \rho\tau$$

or equivalently,

$$r = \rho - Q^{-1}(\rho\tau)$$

in which $Q^{-1}(\cdot)$ is defined implicitly by

$$Q(x) \equiv xP'(x) - P(x) = (\gamma - 1)\left(\frac{x}{b}\right)^{\gamma} - a \tag{36}$$

and hence $Q^{-1}(y) = b\left(\frac{y+a}{\gamma-1}\right)^{1/\gamma}$ and

$$r = \rho - b\left(\frac{\rho\tau + a}{\gamma - 1}\right)^{1/\gamma} \tag{37}$$

Thus, the bank sets an interior $r \in (0, \rho)$ when $\rho > Q^{-1}(\rho\tau)$, which simplifies to

$$\tau < \frac{(\gamma - 1)(\rho/b)^{\gamma} - a}{\rho} \tag{38}$$

The RHS is increasing in ρ and denoted as $u(\rho)$ in the proposition for simplicity.

Regarding the comparative statics:

(a) For $\frac{\partial r}{\partial \tau}$, from (7), we have $\frac{\partial r}{\partial \tau} = -(Q^{-1})'\rho$. Further, from (36), we have $Q' = xP''$ and hence $(Q^{-1})' = \frac{1}{Q'} = \frac{1}{xP''}$. Hence, $\frac{\partial r}{\partial \tau} = -\frac{1}{xP''}\rho$ which is negative since $P'' > 0$.

(b) For $\frac{\partial r}{\partial \rho}$, from (7, 36), we have $\frac{\partial r}{\partial \rho} = 1 - (Q^{-1})'\tau = 1 - \frac{1}{xP''}\tau$ which is less than one if $P'' > 0$. To verify that it is positive, we plug in $x = b\left(\frac{\rho\tau + a}{\gamma - 1}\right)^{1/\gamma}$ and get

$$\frac{\partial r}{\partial \rho} = 1 - \frac{b\tau}{\gamma(\gamma-1)^{1/\gamma}(\rho\tau + a)^{1-1/\gamma}}$$

which is decreasing in τ. Then we use (38) to bound it as

$$\frac{\partial r}{\partial \rho} > 1 - \frac{b/\rho}{\gamma(\gamma-1)^{1/\gamma}} \frac{(\gamma-1)(\rho/b)^\gamma - a}{(\gamma-1)^{1-1/\gamma}(\rho/b)^{\gamma-1}} = 1 - \frac{1}{\gamma} + \frac{a}{\gamma(\gamma-1)(\rho/b)^\gamma}$$

which is positive since $a \geq 0, \gamma > 1$.

(c) For $\frac{\partial^2 r}{\partial \rho \partial \tau}$, from (7), we have

$$\frac{\partial^2 r}{\partial \rho \partial \tau} = -(Q^{-1})' - (Q^{-1})''\rho\tau = -(Q^{-1})' - (Q^{-1})''Q$$

The inverse function Q^{-1} satisfies

$$(Q^{-1})' = \frac{1}{Q'}$$
$$(Q^{-1})'' = -\frac{Q''}{(Q')^3}$$

Hence we get

$$\frac{\partial^2 r}{\partial \rho \partial \tau} = -\frac{1}{Q'} + \frac{QQ''}{(Q')^3} = \frac{QQ'' - (Q')^2}{(Q')^3}$$

which is negative if $QQ'' - (Q')^2 < 0$ and $Q' > 0$ with the latter equivalent to $P'' > 0$. For the former, we plug in $Q = (\gamma - 1)(x/b)^\gamma - a$ and get

$$QQ'' - (Q')^2 = -\frac{\gamma(\gamma-1)^2}{b^2}\left(\frac{x}{b}\right)^{2\gamma-2} - a\frac{\gamma(\gamma-1)^2}{b^2}\left(\frac{x}{b}\right)^{\gamma-2} < 0$$

□

Proof of Proposition 2. For $\tau \geq u(\rho)$, we have $r = 0$ and thus the deposit flow sensitivity with respect to deposit spread is

$$(\Delta t)^{-1} \frac{\partial(\log M_{t+\Delta t} - \log M_t)}{\partial(\rho - r)} = -\tau^{-1} P'(\rho) = -\tau^{-1} \frac{\gamma}{b} \left(\frac{\rho}{b}\right)^{\gamma-1}$$

For $\tau < u(\rho)$, we plug in the optimal r from Proposition 1 and get

$$(\Delta t)^{-1} \frac{\partial(\log M_{t+\Delta t} - \log M_t)}{\partial(\rho - r)} = -\tau^{-1} P'(\rho - r) = -\tau^{-1} \frac{\gamma}{b} \left(\frac{\rho\tau + a}{\gamma - 1}\right)^{1-1/\gamma}$$

The absolute value declines in τ. □

Proof of Proposition 3. For $\rho < u^{-1}(\tau)$, we have

$$V_0 = \frac{\rho}{\rho + \tau^{-1} P(\rho)} M_0$$

and hence

$$\begin{aligned}
\frac{\mathrm{d}V_0}{\mathrm{d}\tau} &= \frac{\rho\tau^{-2} P(\rho)}{[\rho + \tau^{-1} P(\rho)]^2} M_0 > 0 \\
\frac{\mathrm{d}V_0}{\mathrm{d}\rho} &= \frac{\tau^{-1}\left[P(\rho) - \rho P'(\rho)\right]}{\left[\rho + \tau^{-1} P(\rho)\right]^2} M_0 = \frac{\tau^{-1}\left[a - (\gamma - 1)(\rho/b)^{\gamma}\right]}{\left[\rho + \tau^{-1} P(\rho)\right]^2} M_0
\end{aligned}$$

the latter of which is positive when $\rho < b\left(\frac{a}{\gamma-1}\right)^{1/\gamma} = u^{-1}(0)$.

For $\rho > u^{-1}(\tau)$, we have

$$V_0 = \frac{x}{\rho + \tau^{-1} P(x)} M_0$$

which $x = x^*(\rho, \tau)$ optimally chosen to maximize V_0. Hence, DFV satisfies

$$\frac{\mathrm{d}V_0^*}{\mathrm{d}\tau} = \frac{\partial V_0}{\partial x}\frac{\partial x^*}{\partial \tau} + \frac{\partial V_0}{\partial \tau} = \frac{\partial V_0}{\partial \tau} = \frac{x\tau^{-2} P(x)}{[\rho + \tau^{-1} P(x)]^2} M_0 > 0$$

where the first term drops out since $\frac{\partial V_0}{\partial x} = 0$ at x^*, which is essentially the envelope theorem. The same holds for $\frac{\mathrm{d}V_0^*}{\mathrm{d}\rho}$

$$\frac{\mathrm{d}V_0^*}{\mathrm{d}\rho} = -\frac{x}{[\rho + \tau^{-1} P(x)]^2} M_0 < 0$$

□

Proof of Proposition 4. Before the change in policy rate, banks set their optimal rate ρ established in Proposition 1. After the policy rate change, when a bank receives a Poisson strike to adjust their deposit rate, they will set the optimal deposit rate under ρ'. Further, according to Proposition 1, with $u(\rho) \equiv \frac{(\gamma-1)(\rho/b)^{\gamma}-a}{\rho}$, only banks with $\tau < u(\rho)$ will set a positive rate under ρ and only those with $\tau < u(\rho')$ will set a positive rate under ρ'. Thus, with $\bar{\rho} \equiv \max\{\rho, \rho'\}$, banks with $\tau > u(\bar{\rho})$ will set a zero rate before and after the shock, and those with $\tau < u(\bar{\rho})$ will adjust their rate after shock. As banks can only adjust when they receive a Poisson strike with intensity θ, the share of banks that have adjusted their deposit rates hence follows

$$S_t = (1 - \mathrm{e}^{-\theta t})F(u(\bar{\rho}))$$

Since $u(\rho) \equiv \frac{(\gamma-1)(\rho/b)^{\gamma}-a}{\rho} = (\gamma-1)b^{-\gamma}\rho^{\gamma-1} - a\rho^{-1}$ increases in ρ, so is $F(u(\rho))$. Thus S_t increases in $\bar{\rho}$. □

Proof of Proposition 5. These expressions follow directly by taking derivatives of results in Propositions 1 and 2. □

C.2. Proofs for Theory Extensions

Proof of Proposition 6. To start with, we analyze the optimal rate setting. The current value Hamiltonian is

$$\mathcal{H}(I_t, x_t, \lambda_t) = x_t M_t - C(I_t) + \lambda_t(-\tau^{-1}P(x_t)M_t + I_t)$$

The optimality conditions are

$$0 = \mathcal{H}_x = M_t - \lambda_t \tau^{-1} P'(x_t) M_t \tag{39}$$

$$0 = \mathcal{H}_I = -C'(I_t) + \lambda_t \tag{40}$$

$$\rho\lambda_t - \dot{\lambda}_t = \mathcal{H}_M = x_t - \lambda_t \tau^{-1} P(x_t) \tag{41}$$

From (39) we can determine

$$\lambda_t = \frac{1}{\tau^{-1}P'(x_t)}$$

which is the marginal value of one dollar of deposit inside the bank.

Plugging this into (41) yields

$$\frac{P''(x_t)}{P'(x_t)}\dot{x}_t = \tau^{-1}x_t P'(x_t) - \tau^{-1}P(x_t) - \rho$$

If ρ is constant, x_t is constant too and is the same as in Proposition 1. (This can be seen explicitly from Proposition 7 which solves this ODE and expresses x_t as an integral of future ρ_s for $s \geq t$.)

In the case of quadratic acquisition cost, (40) yields

$$C'(I_t) = \frac{1}{\tau^{-1}P'(x)} = \frac{x}{\tau^{-1}P(x) + \rho}$$

which means I_t is a constant equal to $I = (C')^{-1}\left(\frac{1}{\tau^{-1}P'(x)}\right)$. Thus, the bank acquires the same amount of depositors at each point in time. The inflow I increases in τ since $\tau^{-1}P'(x)$ decreases in τ, despite that x increases in τ. I decreases in ρ since x increases in ρ.

In the case of constant free inflow, (40) is dropped, $I_t \equiv I$ is fixed, and the same law of motion applies to M_t.

Consequently, its deposit balance under (16) is solved by, with $\delta = \tau^{-1}P(\rho - r)$,

$$M_t = \frac{I}{\delta}(1 - \mathrm{e}^{-\delta t}) + M_0\mathrm{e}^{-\delta t}$$

which approaches the steady state level

$$\frac{I}{\delta} = \frac{1}{\kappa\tau^{-1}P'(x)\tau^{-1}P(x)} = \frac{b(\gamma-1)}{\gamma}\frac{\tau^2}{a\gamma + \rho\tau}\left(\frac{\rho\tau + a}{\gamma - 1}\right)^{-\frac{\gamma-1}{\gamma}}$$

which increases in τ. Further, it decreases in ρ since x increases in ρ.

Given the law of motion (16), if we hold the inflow I fixed, the local flow sensitivity is

$$(\Delta t)^{-1}\frac{\partial(\log M_{t+\Delta t} - \log M_t)}{\partial x} = -\tau^{-1}P'(x)$$

which is the same as in Proposition 2.

To characterize the deposit franchise value, we plug (18) into (17) and get

$$V_0 = x\left[\int_0^\infty \mathrm{e}^{-\rho t}\frac{I}{\delta} + \int_0^\infty \mathrm{e}^{-\rho t}\left(M_0 - \frac{I}{\delta}\right)\mathrm{e}^{-\delta t}\right]\mathrm{d}t - \int_0^\infty \mathrm{e}^{-\rho t}C(I)\mathrm{d}t$$

$$= x\left[\frac{I}{\delta\rho} + \left(M_0 - \frac{I}{\delta}\right)\frac{1}{\delta+\rho}\right] - \frac{C(I)}{\rho}$$
$$= \frac{x}{\delta+\rho}\left(M_0 + \frac{I}{\rho}\right) - \frac{C(I)}{\rho}$$

As a higher τ lowers the outflow in (16), the bank makes a strictly higher profit, hence DFV increasing in τ.

When the deposit spread x is interior, applying the envelope theorem gives

$$\frac{\mathrm{d}V_0}{\mathrm{d}\rho} = -\frac{x}{(\delta+\rho)^2}\left(M_0 + \frac{I}{\rho}\right) - \frac{1}{\rho^2}\left(\frac{x}{\delta+\rho}I - C(I)\right)$$

In that calculation, since I and x (which drives δ) are optimally chosen to maximize DFV, we hold them fixed in evaluating the comparative statics. The first term is negative. The second term is negative in both constant-free-inflow case and convex-acquisition cost case. The latter is because $C(I)$ is convex and $C'(I) = \frac{x}{\delta+\rho}$. The economic intuition is that the marginal cost is higher than the average cost under a convex acquisition cost. □

Proof of Proposition 7. The current-value Hamiltonian is

$$\mathcal{H} = x_t M_t - \lambda_t \tau^{-1} P(x_t) M_t$$

and the optimality conditions are, when the optimal x_t is interior,

$$0 = \mathcal{H}_x = M_t - \lambda_t \tau^{-1} P'(x_t) M_t$$
$$\rho_t \lambda_t - \dot{\lambda}_t = \mathcal{H}_M = x_t - \lambda_t \tau^{-1} P(x_t)$$

From the former we can determine

$$\lambda_t = \frac{1}{\tau^{-1} P'(x_t)}$$

Plugging this into the latter yields

$$\rho_t \frac{1}{\tau^{-1}P'(x_t)} + \frac{P''(x_t)}{\tau^{-1}(P'(x_t))^2}\dot{x}_t = x_t - \frac{P(x_t)}{P'(x_t)}$$
$$\frac{P''(x_t)}{P'(x_t)}\dot{x}_t = \tau^{-1} x_t P'(x_t) - \tau^{-1} P(x_t) - \rho_t$$
$$(\gamma-1)\frac{\dot{x}_t}{x_t} = \tau^{-1}\left[(\gamma-1)\left(\frac{x_t}{b}\right)^{\gamma} - a\right] - \rho_t$$

This is a Bernoulli differential equation which can be solved with variable substitution $z_t = x_t^{-\gamma}$ as

$$\dot{z}_t - \frac{\gamma}{\gamma - 1}(\rho_t + \tau^{-1}a)z_t + \tau^{-1}\frac{\gamma}{b^\gamma} = 0$$

This is a linear differential equation and the only solution that satisfies the transversality condition is

$$z_t = \tau^{-1}\frac{\gamma}{b^\gamma}\int_t^\infty \exp\left\{-\frac{\gamma}{\gamma-1}\int_t^s(\rho_u + a\tau^{-1})\mathrm{d}u\right\}\mathrm{d}s$$

In terms of the comparative statics w.r.t. τ, we rewrite z_t as

$$\begin{aligned} z_t &= \int_0^\infty \tau^{-1}\frac{\gamma}{b^\gamma}\exp\left\{-\frac{\gamma a y}{\tau(\gamma-1)}\right\}\cdot\exp\left\{-\frac{\gamma\int_t^{t+y}\rho_u\mathrm{d}u}{\gamma-1}\right\}\mathrm{d}y \\ &= \frac{\gamma-1}{ab^\gamma}\int_0^\infty\left[\frac{\gamma a}{\tau(\gamma-1)}\mathrm{e}^{-\frac{\gamma a y}{\tau(\gamma-1)}}\right]\cdot\left[\mathrm{e}^{-\int_t^{t+y}\frac{\gamma\rho_u}{\gamma-1}\mathrm{d}u}\right]\mathrm{d}y \end{aligned}$$

which can be viewed as an expectation

$$z_t = \frac{\gamma-1}{ab^\gamma}\,\mathrm{E}[g(y)] = \frac{\gamma-1}{ab^\gamma}\int_0^\infty f(y)g(y)\mathrm{d}y$$

under the probability density function $f(y) \equiv \frac{\gamma a}{\tau(\gamma-1)}\mathrm{e}^{-\frac{\gamma a y}{\tau(\gamma-1)}}$ of an exponential distribution with a rate parameter $\frac{\gamma a}{\tau(y-1)}$ and $g(y) \equiv \mathrm{e}^{-\int_t^{t+y}\frac{\gamma\rho_u}{\gamma-1}\mathrm{d}u}$.

If τ goes up, the rate parameter of the exponential distribution $f(y)$ goes down, shifting the distribution to the right in the sense of first-order stochastic dominance. As $g(y)$ declines in y, z_t as an expectation goes down as τ goes up. Since r_t increases in z_t, r_t falls in τ.

Similarly, for the pass-through of policy rate at $s > t$ into z_t, we have $\frac{\partial z_t}{\partial \rho_s}$ to be infinitesimal and satisfy

$$\frac{\partial z_t}{\partial \rho_s} \propto -\int_{s-t}^\infty f(y)g(y)\mathrm{d}y$$

Since r_t increases in z_t, the intertemporal pass-through $\frac{\partial r_t}{\partial \rho_s}$ for $s > t$ is negative and infinitesimal. □

Proof of Proposition 8. As $t \to \infty$, x_t converges to x which satisfies

$$\tau^{-1}[(\gamma-1)(x/b)^\gamma - a] - \rho = 0$$

which determines

$$x = b\left(\frac{\rho\tau + a}{\gamma - 1}\right)^{1/\gamma}$$

We plug $\rho_t = \rho + \Delta\rho \mathrm{e}^{-\phi t}$ into (22) and expand to the first order in $\Delta\rho$,

$$(\gamma - 1)(-\phi)\frac{\Delta x}{x}\mathrm{e}^{-\phi t} = \tau^{-1}\gamma(\gamma - 1)\frac{x^{\gamma-1}}{b^{\gamma}}\Delta x \mathrm{e}^{-\phi t} - \Delta\rho \mathrm{e}^{-\phi t}$$

which determines

$$\Delta x = \left[(\gamma - 1)\frac{\phi}{x} + \tau^{-1}\gamma(\gamma - 1)\frac{x^{\gamma-1}}{b^{\gamma}}\right]^{-1}\Delta\rho = \frac{x}{(\gamma - 1)\phi + \gamma\rho + \tau^{-1}\gamma a}\Delta\rho$$

which increases in τ and decreases in ϕ. That means, $r_t = \rho_t - x_t = r + \Delta r \mathrm{e}^{-\phi t}$ with steady-state level

$$r = \rho - x = \rho - b\left(\frac{\rho\tau + a}{\gamma - 1}\right)^{1/\gamma}$$

which coincides with (7) and pass-through

$$\frac{\Delta r}{\Delta\rho} = 1 - \frac{\Delta x}{\Delta\rho} = 1 - \frac{x}{(\gamma - 1)\phi + \gamma\rho + \tau^{-1}\gamma a}$$

which increases in ϕ and decreases in τ, the latter since the numerator x increases in τ and the denominator decreases in τ. □

Proof of Proposition 9. Regarding the rate-setting, the FOC is, with $x = \rho - r$,

$$\tau^{-1}P(x, \rho) + \rho - \tau^{-1}xP_x(x, \rho) = 0$$

which determines

$$x = \min\left\{\rho, b\left(\frac{(\rho\tau + a)\rho^{\eta}}{\gamma - 1}\right)^{1/\gamma}\right\}$$

Equivalently, the optimal x obtains the interior solution

$$x = b\left(\frac{(\rho\tau + a)\rho^{\eta}}{\gamma - 1}\right)^{1/\gamma} \tag{42}$$

if and only if $\tau \leq u(\rho)$ with

$$u(\rho) \equiv \frac{(\gamma-1)\rho^{\gamma-\eta}/b^{\gamma} - a}{\rho} \tag{43}$$

which increases in ρ as long as $\gamma > 1+\eta$. Obviously, $\frac{\partial x}{\partial \tau} > 0, \frac{\partial x}{\partial \rho} > 0$, and $\frac{\partial^2 x}{\partial \rho \partial \tau} > 0$. To verify $\frac{\partial x}{\partial \rho} < 1$, we notice $\frac{\partial x}{\partial \rho} = \frac{x}{\gamma}\left(\frac{\rho\tau}{a+\rho\tau} + \eta\right)$ increases in τ since both x and $\frac{\tau}{a+\rho\tau}$ increase in τ. Hence $\frac{\partial x}{\partial \rho} \leq \frac{\partial x}{\partial \rho}|_{\tau=u(\rho)} = \frac{1}{\gamma}\left(1+\eta-\frac{ab^{\gamma}}{(\gamma-1)\rho^{\gamma-\eta}}\right)$, which is less than one as long as $\gamma > 1+\eta$.

Regarding the flow sensitivity

$$(\Delta t)^{-1}\frac{\partial(\log M_{t+\Delta t} - \log M_t)}{\partial x} = -\tau^{-1}P_x(x,\rho) = \begin{cases} -\tau^{-1}\frac{\gamma}{b}\left(\frac{\rho\tau+a}{\gamma-1}\right)^{1-1/\gamma}\rho^{-\eta/\gamma}, & \tau < u(\rho) \\ -\tau^{-1}\frac{\gamma}{b}\left(\frac{\rho}{b}\right)^{\gamma-1}\rho^{-\eta}, & \tau \geq u(\rho) \end{cases}$$

which is continuous in τ since x is continuous in τ. Obviously, on $\tau \geq u(\rho)$, its magnitude declines in τ. For $\tau < u(\rho)$, its magnitude is proportional to $(\rho + a\tau^{-1})(\rho\tau + a)^{-1/\gamma}$ which declines in τ since $a \geq 0$.

Regarding the deposit franchise value, it strictly increases in τ since DFV under any x is higher. In terms of its duration under an interior x when $\tau \geq u(\rho)$, we have from the envelope theorem

$$\frac{\mathrm{d}V_0/M_0}{\mathrm{d}\rho} = -\frac{x}{(\tau^{-1}P(x,\rho)+\rho)^2}(\tau^{-1}P_{\rho}(x,\rho)+1) = \left(\frac{\eta}{\gamma-1}\left(1+\frac{a}{\rho\tau}\right)-1\right)\frac{x}{(\tau^{-1}P(x,\rho)+\rho)^2}$$

which is positive if $\tau < \frac{a}{\rho}\frac{\eta}{\gamma-1-\eta}$, in which case the direct effect of ρ on $P(x,\rho)$ dominates the direct effect of ρ as the discount rate in driving DFV. □

Proof of Proposition 10. Under a constant policy rate, DFV in (31) becomes

$$V_0 = \frac{x-c}{\tau^{-1}P(x)+\rho}M_0 - \frac{F}{\rho}$$

with $x = \rho - r$.

Taking the FOC w.r.t. x yields

$$h(x) = -(\gamma-1)x^{\gamma} + c\gamma x^{\gamma-1} + (a+\rho\tau)b^{\gamma} \tag{44}$$

which pins down x as an implicit function when x is interior. Next we use the implicit

function theorem to determine the comparative statics. We have

$$h'(x) = -\gamma(\gamma-1)x^{\gamma-2}(x-c) < 0 \tag{45}$$

and

$$h''(x) = -\gamma(\gamma-1)x^{\gamma-3}[(\gamma-1)x-(\gamma-2)c] < 0 \tag{46}$$

Using the implicit function theorem, we get

$$\frac{\partial x}{\partial \tau} = -\frac{\partial h/\partial \tau}{h'(x)} = -\frac{\rho b^{\gamma}}{h'(x)} > 0$$

Hence there exists a threshold $\tau = u(\rho)$ such that $x = \rho$. We can characterize such a threshold as

$$u(\rho) = \frac{(\gamma-1)\rho^{\gamma-1} - c\gamma\rho^{\gamma-2} - ab^{\gamma}\rho^{-1}}{b^{\gamma}}$$

Further,

$$u'(\rho) = \frac{\rho^{\gamma-3}(\rho+\gamma(\gamma-2)(\rho-c)) + ab^{\gamma}\rho^{-2}}{b^{\gamma}}$$

which is positive as long as $\rho > c$. That is, $u(\rho)$ increases in ρ as long as $\rho > c$.

In terms of the pass-through we have

$$\frac{\partial x}{\partial \rho} = -\frac{\partial h/\partial \rho}{h'(x)} = -\frac{\tau b^{\gamma}}{h'(x)} > 0$$

which means $\frac{\partial r}{\partial \rho} < 1$. Further, we show that $\frac{\partial x}{\partial \rho} < 1$ which implies $\frac{\partial r}{\partial \rho} > 0$. To establish that, we need to show

$$\tau b^{\gamma} < -h'(x) = \gamma(\gamma-1)x^{\gamma-2}(x-c)$$

Using (44), we get $\tau b^{\gamma} < \rho^{-1}[(\gamma-1)x^{\gamma} - c\gamma x^{\gamma-1}]$. It suffices to show

$$\begin{aligned}
\rho^{-1}[(\gamma-1)x^{\gamma} - c\gamma x^{\gamma-1}] &< \gamma(\gamma-1)x^{\gamma-2}(x-c) \\
(\gamma-1)x^2 - c\gamma x &< \rho\gamma(\gamma-1)(x-c) \\
(\gamma-1)(x-c)(x-\rho\gamma) - cx &< 0
\end{aligned}$$

which holds since $0 \leq c < x \leq \rho < \gamma\rho$.

Moreover, in terms of the comparative statics of pass-through w.r.t. inattention

$$\frac{\partial^2 x}{\partial \rho \partial \tau} = -b^\gamma \frac{h'(x) - \tau h''(x)\frac{\partial x}{\partial \tau}}{(h'(x))^2} = -b^\gamma \frac{(h'(x))^2 + \tau\rho b^\gamma h''(x)}{(h'(x))^3}$$

Since $h'(x) < 0$, its sign depends on the numerator $B = (h'(x))^2 + \tau\rho b^\gamma h''(x)$. Using (44), we get

$$\begin{aligned} B &= (h'(x))^2 + [(\gamma-1)x^\gamma - c\gamma x^{\gamma-2}]h''(x) - ab^\gamma h''(x) \\ &= \gamma^2(\gamma-1)^2 x^{2\gamma-4}(x-c)^2 - \gamma(\gamma-1)x^{2\gamma-4}[(\gamma-1)x - c\gamma][(\gamma-1)x - (\gamma-2)c] - ab^\gamma h''(x) \\ &= \gamma(\gamma-1)x^{2\gamma-4}[(\gamma-1)(x-c)^2 + c^2] - ab^\gamma h''(x) \end{aligned}$$

which is positive since the first term is positive and $h''(x) < 0$. That is, $\frac{\partial^2 x}{\partial \rho \partial \tau} > 0$.

The flow sensitivity at the interior solution is $-\tau^{-1}P'(x) = -\tau^{-1}\gamma x^{\gamma-1}/b^\gamma$. We show that its magnitude declines in τ. We need

$$\frac{\mathrm{d}\log(\tau^{-1}P'(x))}{\mathrm{d}\log\tau} = -1 + (\gamma-1)\frac{\tau}{x}\frac{\partial x}{\partial \tau} < 1$$

That is

$$\frac{(\gamma-1)\tau}{x}\frac{\rho b^\gamma}{-h'(x)} < 1$$

Using (44) and (45), we simplify it to

$$\begin{aligned} \frac{(\gamma-1)\tau}{x}\frac{\rho b^\gamma}{(\gamma-1)x^{-1}(x^\gamma + (a+\rho\tau)b^\gamma)} &< 1 \\ \frac{\rho\tau b^\gamma}{x^\gamma + (a+\rho\tau)b^\gamma} &< 1 \end{aligned}$$

which holds.

As for the duration of DFV, when the banks charge an optimal x to maximize DFV, we have the envelope theorem as

$$\frac{\partial V_0}{\partial \rho} = -\frac{x-c}{(\tau^{-1}P(x)+\rho)^2}M_0 + \frac{F}{\rho^2}$$

which is positive when

$$\frac{F}{M_0} > \frac{(x-c)\rho^2}{(\tau^{-1}P(x)+\rho)^2}$$

□

D. Data Appendix

For privacy considerations, we do not publicly disseminate the transaction-level keyword dictionary for the construction of depositor characteristics. Below we tabulate the construction of county-income-group level socioeconomic demographic variables from IRS tax filings in Table A-1.

Table A-1: IRS-Derived Measures Matching Variables Inferred from Transactional Data

Name	**Aggregate Metric**	**IRS Code (Years Available)**
Returns	Sum	n1(2007–2021)
Exemptions	Sum	n2(2007–2021)
Single	Simple Averages/Shares	MARS1(2013–2021)
Joint	Simple Averages/Shares	MARS2(2007–2021)
Salaries	Simple/Weighted Averages/Shares	00200(2007–2021)
Investment Income	Simple/Weighted Averages/Shares	00300(2007–2021)+00600(2007–2021) +00650(2008–2021) +23900(2007–2008) +01000(2009–2021) +01400(2007–2021) +01700(2007–2017,2019–2021) +01400(2007–2017,2019–2021) +01750(2018)
Business Income	Simple/Weighted Averages/Shares	00900(2007–2021)
Unemployment	Simple/Weighted Averages/Shares	02300(2007–2021)
Social Security	Simple/Weighted Averages/Shares	02500(2007–2021)
Tax Payment	Simple/Weighted Averages/Shares	18425(2007–2021) 11900(2007–2008,"gt0")+11901(2009–2021)
Tax Refund	Simple/Weighted Averages/Shares	00700(2007–2021) 11900(2007–2008,"lt0")+11902(2009–2021)
Mortgage	Simple/Weighted Averages/Shares	18500+19300(2007–2021);number of returns avail. 2007&2009-2021
Child	Simple/Weighted Averages/Shares	07220(2007–2017)+07225(2018–2021);number of returns avail. 2007&2009-2021
Student Loan	Simple/Weighted Averages/Shares	03210(2013–2021)

IRS 5-digits are reported with total amount (A) and numbers of filings (N) in each year between 2007 – 2021 except for 2008 where numbers of filings are not available. Each variable is computed as both a simple and a weighted average, and as shares out of total income (for amount) or number of returns. Composite measures (e.g., Regular Income, Retirement Income) are defined by the sum of IRS fields (or max – when computing numbers of returns).

E. Additional Empirical Results

E.1. Reactions to scheduled versus unscheduled income

Marginal propensity to consume. We estimate spending responses in consumption and restaurant categories to tax refunds and compare them with responses to scheduled paychecks. Panel (a) of Figure A-2 plots consumption responses to scheduled versus unscheduled income; panel (b) shows restaurant spending. Following Baugh, Ben-David, Park, and Parker (2021), who use transaction-level data from the same provider, we define consumption as outflows in: gas, restaurants, retail, groceries, cash, entertainment, health care, travel, utilities, miscellaneous bills (e.g., gym memberships), and health insurance. Restaurant spending comprises outflows to restaurants. Note these categories do not exhaust total consumption: many payments occur via checks or ACH transfers that may mix saving and spending and cannot be reliably classified from transaction labels.

Subsample analysis based on income size. Figure A-3 plots the balance-decay paths following scheduled and unscheduled income for two subsamples split by the relative size of unscheduled income compared with scheduled income. Panel (a) shows responses from the sample of depositors with average tax refunds larger than salary and wage income, and Panel (b) shows responses from the sample of depositors with average tax refunds smaller than salary and wage income.

Subsample analysis based on shares of recurring payments. Figure A-4 plots the balance-decay paths following scheduled and unscheduled income for two subsamples defined by the prevalence of recurring outflows. We classify recurring outflows as transactions whose descriptions contain markers of pre-authorization (e.g., direct debit, auto-pay), and we also include credit-card, loan, and mortgage payments. Panel (a) reports responses for depositors with an above-median share of recurring outflows; Panel (b) reports responses for those with a below-median share.

(a) Consumption response



(b) Restaurant response

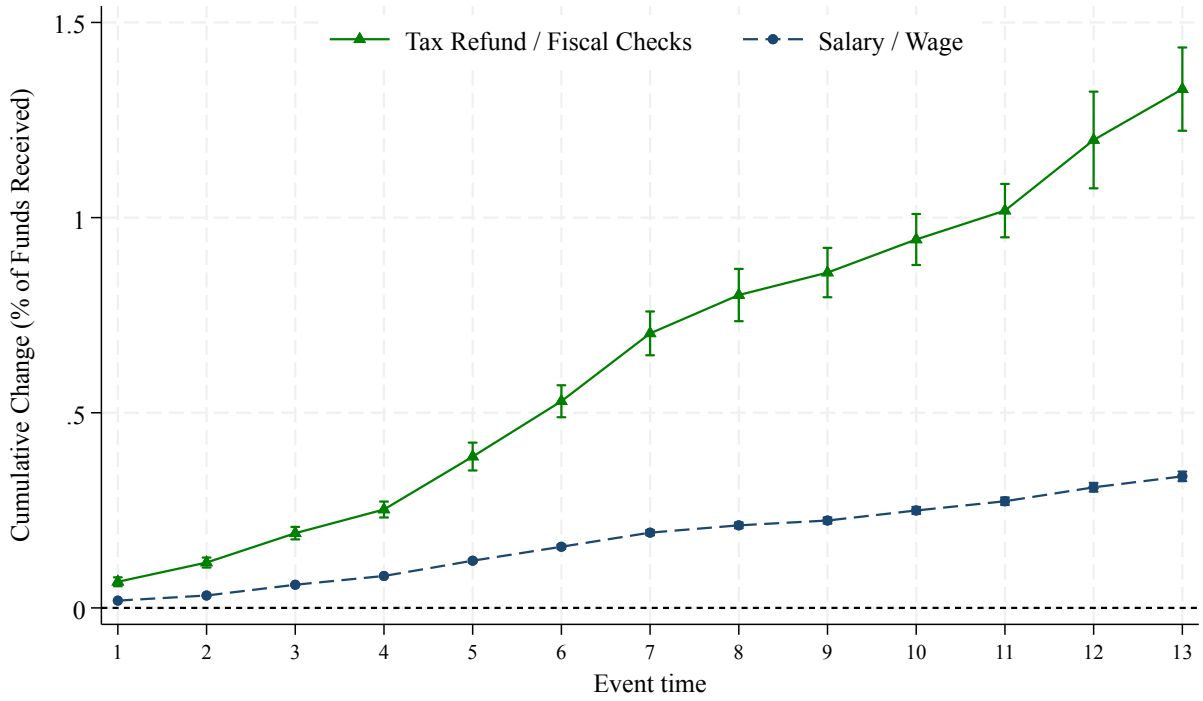


Figure A-2: Marginal propensity to consume

This figure plots consumption responses to scheduled and unscheduled income following the same methodology in Figure 1.

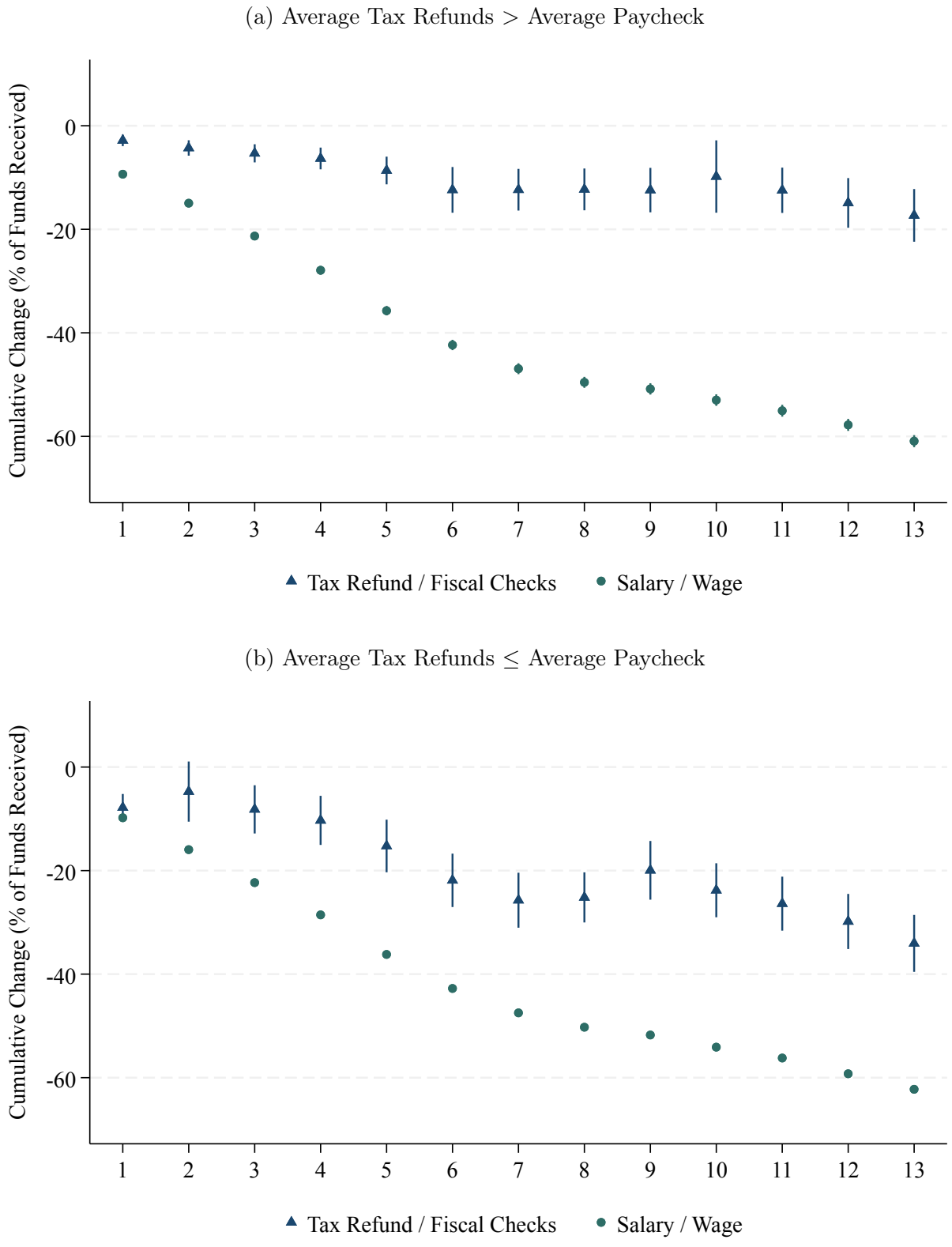


Figure A-3: Subsample analysis by income sizes

This figure plots the decay of balances to scheduled and unscheduled income, in two subsamples, following the same methodology in Figure 1.

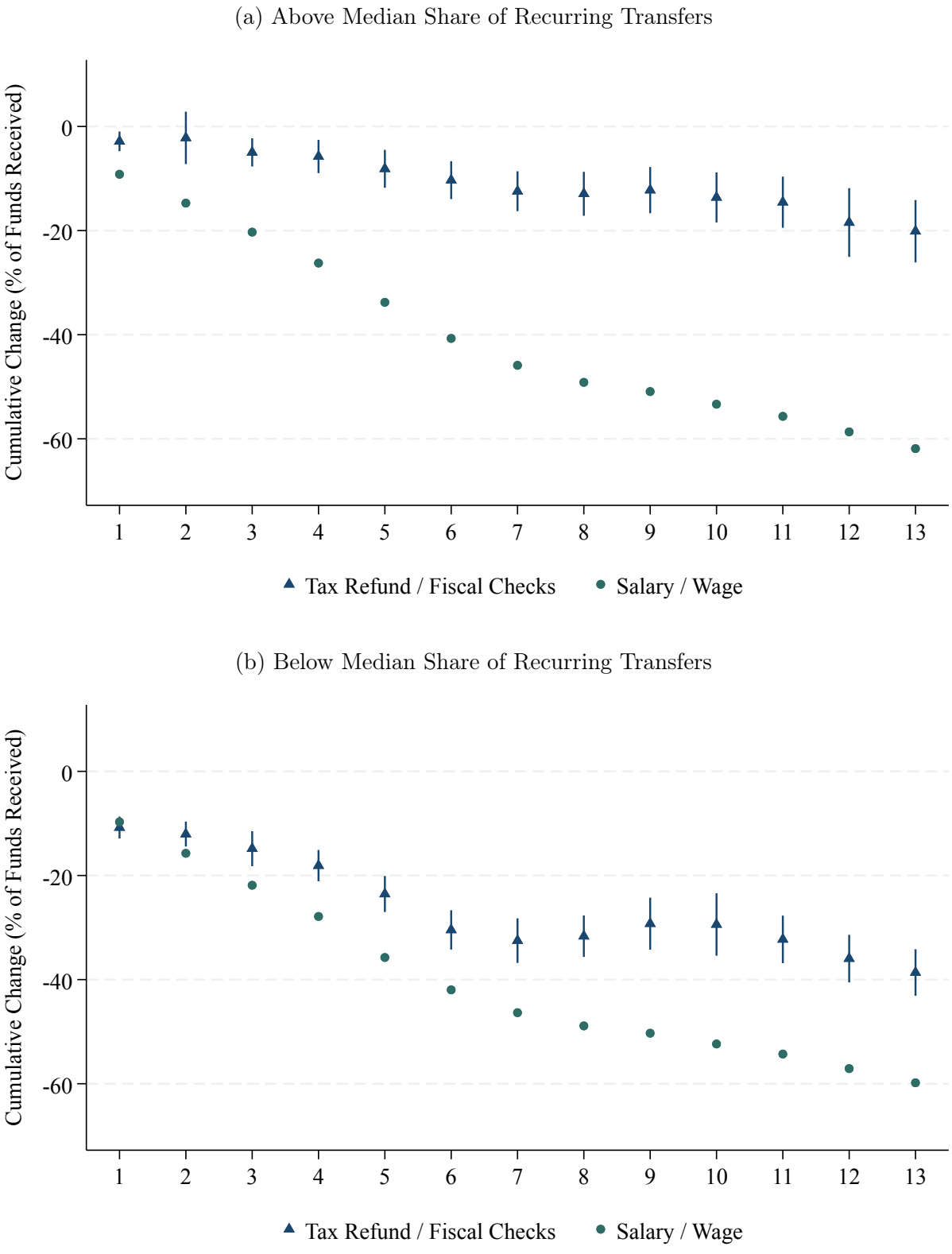


Figure A-4: Subsample analysis by recurring shares

This figure plots the decay of balances to scheduled and unscheduled income, in two subsamples, following the same methodology in Figure 1.

E.2. Individual depositor's sensitivity to deposit spreads through a ratio estimator

Below we propose an alternative method to estimate deposit flow sensitivity. Because we do not know, nor do we wish to assume, exactly how a depositor's inattention translates into the spread that her bank offers. To sidestep this, we estimate rate sensitivity *within* narrow inattention bins of depositors. Specifically, we sort all depositors by their inattention into 25 bins to obtain within-bin rate sensitivity estimates. Let m_{it} be the balance across a depositor i's checking and savings accounts in month t, x_{it} the deposit spread, ρ_t the federal funds rate, and inattention of depositor i. The *deposit spread sensitivity*

$$s_i = \frac{\partial \log m_{it}}{\partial x_{it}}$$

measures the percentage change in balances induced by a one-percentage-point change in deposit spread.

However, depositors can self select into different banks, and unfortunately our transaction-level data does not reveal which banks a given depositor uses. The observed comovement between $\log m_{it}$ and x_{it} mixes true rate sensitivity with endogenous sorting across banks (rates) and depositors.

Instead, under the assumption that given a depositor, the policy rate change influences deposit balances only through the deposit spread, we estimate two reduced-form slopes with respect to policy rate ρ_t:

$$\gamma_i = \frac{\partial \log m_{it}}{\partial \rho_t}, \qquad \beta_i = \frac{\partial x_{it}}{\partial \rho_t},$$

This ratio recovers the causal response of deposit flows to rates without taking a stand on banks' pricing rules or depositor sorting:

$$\underbrace{\partial ln(m_{it})/\partial \rho_t}_{reduced-form\ \gamma_i} = \underbrace{\partial ln(m_{it})/\partial x_{it}}_{rate\ spread\ sensitivity\ s_i} \cdot \underbrace{\partial x_{it}/\partial \rho_t}_{pass-through\ \beta_i}$$

Empirically, we exploit heterogeneity in inattention to form Q bins of depositors sorted by their inattention levels $q = 1, \ldots, Q$. Within each bin, we estimate:

$$\Delta \log m_{it} = \gamma_q \Delta \rho_t + \delta_i + \varepsilon_{it}, \qquad i \in q, \tag{47}$$

$$x_{it} = \beta_q \rho_t + \delta_i + \upsilon_{it}, \qquad i \in q. \tag{48}$$

Specification (47) estimates the sensitivity of balances on policy rate for depositors in a given inattention group, controlling for depositor fixed effect δ_i, and specification (48) estimates

the pass-through of policy rate to deposit spread faced by depositors in a given inattention group.[26] We then estimate the rate sensitivity of depositors as

$$\hat{s}_q = \hat{\gamma}_q / \hat{\beta}_q. \tag{49}$$

Figure A-5 summarizes the rate sensitivity of depositors inferred from (49) for 25 bins of depositors sorted by inattention. The most attentive depositor group on average has a rate sensitivity of -6.8%; that is, for every one-percentage-point increase in deposit spread, the attentive depositors move 6.8% of account balances out in the following month. On the far right side, for the most inattentive depositors, the rate sensitivity is about -1.5%; that is, for every one-percentage-point increase in deposit spread, the inattentive depositors move 1.5% of account balances out in the following month.

E.3. Predicted bank-Level inattention and deposit flows across counties

We regress county-bank level annual deposit growth,

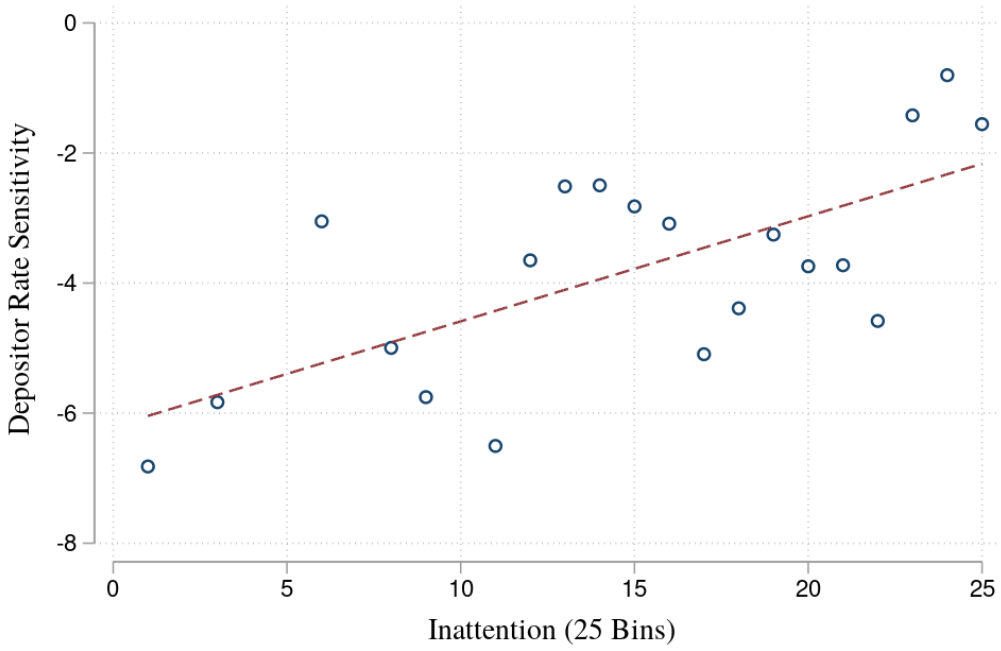
$$\Delta m_{bct} = \beta_0 \Delta\rho_t + \beta_1 \alpha_{ct} \cdot \Delta\rho_t + \beta_2 \alpha_{ct} + \beta_3 \text{HHI}_{ct} \cdot \Delta\rho_t + \beta_4 \text{HHI}_{ct} + \delta_b + \delta_t + \varepsilon_{bct},$$

on the annual change in the federal funds rate, $\Delta\rho_t$, its interaction with county-level inattention (α_{ct} or the projected $\hat{\alpha}_{ct}$), county-level deposit-market Herfindahl index HHI_{ct} and its interaction with $\Delta\rho_t$ capture local deposit market competitiveness (Drechsler, Savov, and Schnabl 2017). Additionally, δ_b and δ_t collect bank and year fixed effects, which account for unobserved idiosyncratic and common trends in deposit growth.

Appendix E.3 shows that for a given bank, higher inattention consistently makes deposit flows less sensitive to policy rate changes. Columns 1-3 use the inattention measure observed directly for the subset of counties covered by the transaction-level sample (2014-2022); columns 4-6 replicate the exercise with the projected measure available for all counties back to 2007. In every specification, the interaction term $\alpha_{ct} \times \Delta\rho_t$ is positive and significant, indicating that higher inattention dampens the outflow response to policy rate increases. Controlling for county fixed effects (columns 2 and 5) and for time-varying local market concentration (columns 3 and 6) leaves the result roughly unchanged.

These results confirm that the projected inattention $\hat{\alpha}_{bt}$ is as informative for bank deposit flow sensitivity to policy rate changes as the directly observed measure, while extending coverage from a subsample of depositors from roughly one-third of U.S. counties to the

[26] We regress the level of the spread x_{it} on the level of the policy rate ρ_t because first-differencing doubles measurement noise in x_{it}, which is already volatile at the individual level.



The figure plots the rate (spread) sensitivity across $Q = 25$ bins of depositors sorted by their inattention rank. We estimate within-bin regressions for each bin q:
$\Delta \log m_{it} = \gamma_q \Delta \rho_t + \delta_i + \varepsilon_{it}, \quad x_{it} = \beta_q \rho_t + \delta_i + \upsilon_{it}, \quad i \in q,$
where m_{it} is depositor i's total balance, x_{it} is the deposit spread faced by depositor i, and ρ_t is the federal funds rate. Each regression includes depositor fixed effects δ_i and clusters standard errors at the depositor level. We then recover the rate sensitivity as $\hat{s}_q = \hat{\gamma}_q / \hat{\beta}_q$ and plot it against bin index q, where bin 1 contains the most attentive depositors and bin 25 contains the most inattentive. A negative $\hat{s}_q$ indicates that higher deposit rates induce outflows, and its magnitude falls as inattention increases.

Figure A-5: Depositor's rate (spread) sensitivity

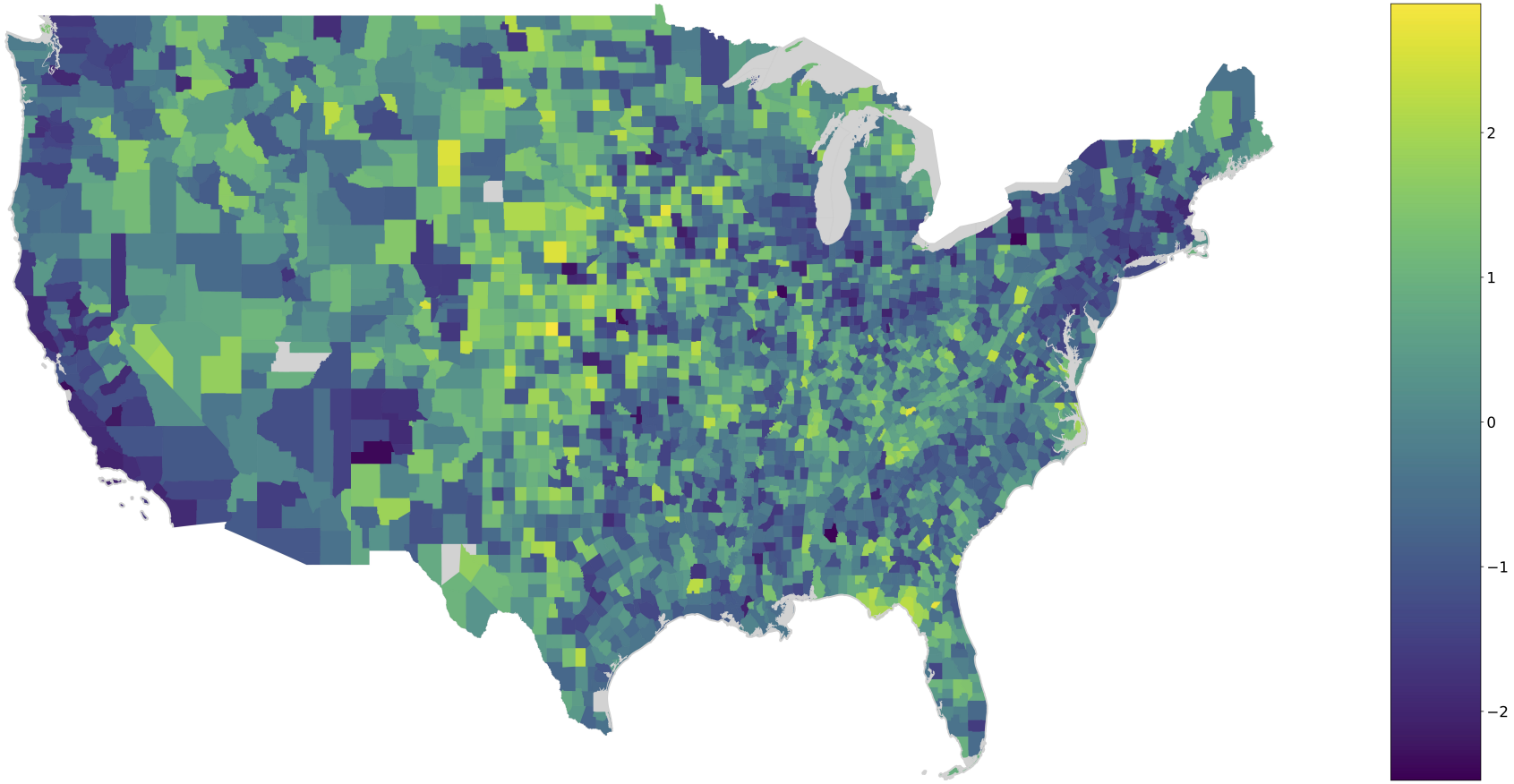
national level.

E.4. The geographical variation in depositor inattention

	(a) Using observed α			(b) Using projected $\hat{\alpha}$		
	(1)	(2)	(3)	(4)	(5)	(6)
$\alpha \times \Delta\rho$	0.154**	0.153**	0.155**			
	(0.068)	(0.068)	(0.068)			
$\hat{\alpha} \times \Delta\rho$				0.589***	0.404***	0.372***
				(0.043)	(0.048)	(0.049)
HHI $\times \Delta\rho$			-0.002			0.287***
			(0.082)			(0.059)
Bank f.e.	Y	Y	Y	Y	Y	Y
Time f.e.	Y	Y	Y	Y	Y	Y
County f.e.	N	Y	Y	N	Y	Y
Observations	123,622	123,622	123,622	384,117	384,117	384,117

This table reports estimates from the cross-sectional regression $\Delta m_{bct} = \beta_0 \Delta\rho_t + \beta_1 (\alpha_{ct} \times \Delta\rho_t) + \beta_2 \alpha_{ct} + \beta_3 (\text{HHI}_{ct} \times \Delta\rho_t) + \beta_4 \text{HHI}_{ct} + \delta_b + \delta_t + \varepsilon_{bct}$, where Δm_{bct} is the log-difference in deposits for bank b in county c during year t, $\Delta\rho_t$ is the annual change in policy rate, α_{ct} measures county-level depositor inattention (directly observed for 2014-2022, and projected as $\hat{\alpha}_{ct}$ for 2007-2022), HHI_{ct} is the county Herfindahl-Hirschman index, and δ_b and δ_t are bank and year fixed effects. Columns (1)-(3) use observed α_{ct} (2014-2022) with the 123,622 county-bank-year observations available with observed α_{ct}; Columns (4)-(6) use projected $\hat{\alpha}_{ct}$ (2007-2022) with 384,117 observations. All columns include bank and year FE; Columns (2) and (5) add county fixed effects; Columns (3) and (6) also include the $\text{HHI}_{ct} \times \Delta\rho_t$ interaction. Standard errors (in parentheses) are clustered at the bank level. Significance levels: $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

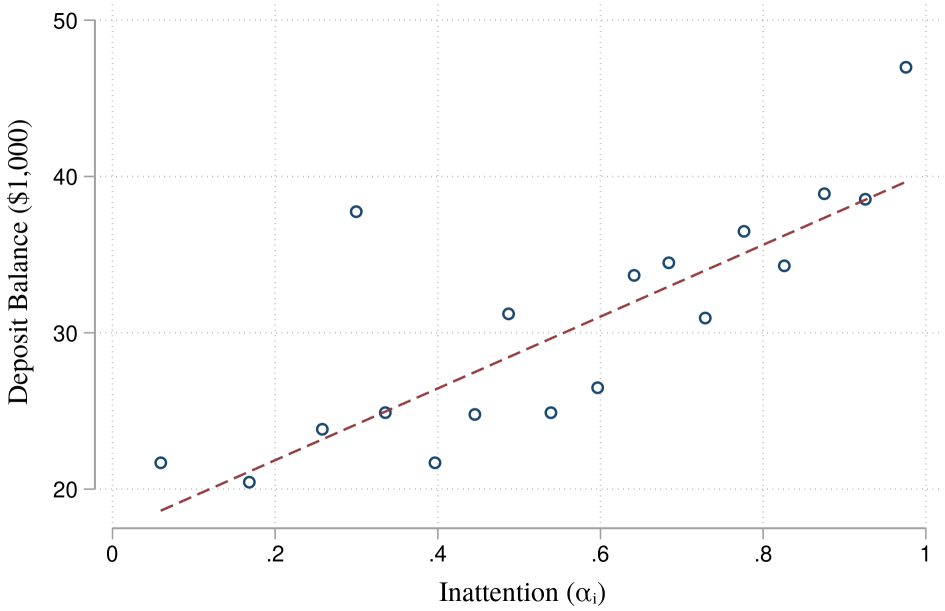
Table A-2: Deposit Flows in the Cross Section



This map displays the geographical distribution the predicted county-level inattention, α_{ct}, for the year 2018. Each county's predicted inattention is weighted by its total deposits, which are calculated as the sum of branch-level deposits reported by the FDIC in 2018. In counties without deposit data, we instead plot the simple average inattention for that area. Lighter (yellow) color with larger value of α_{ct} indicates a higher degree of inattention.

Figure A-6: Mapping inattentive depositors

E.5. Correlation between inattention and deposit balance



This plot displays the correlation between depositor–level inattention and deposit balances. Inattention is measured by ranking ΔHL_i, which is the projected half-life difference between unscheduled and scheduled income for each depositor i. The individual-level ranks are normalized between 0 and 1, where 1 indicates the highest level of inattention. Deposit balances are calculated by summing all bank account deposits for each depositor, using the values at the end of the sample period.

Figure A-7: Inattention and deposit balance

E.6. Cross-sectional evidence on pricing and flows

Table A-3 reports the cross-sectional estimates on bank flow beta, spread beta, and spread with respect to standardized inattention plotted in Figure 9.

	Spread Beta		Spread		NIB Flow Beta	
	(1)	(2)	(3)	(4)	(5)	(6)
Inattention (std.)	0.032***	0.019***	0.094***	0.064***	0.460***	0.245*
	(0.002)	(0.002)	(0.006)	(0.007)	(0.129)	(0.140)
Assets		0.026		0.267***		-5.046**
		(0.030)		(0.061)		(2.277)
Equity Ratio		0.045		-0.326		-3.125
		(0.088)		(0.252)		(4.591)
Non-Deposit Ratio		-0.484***		-1.291***		-9.328***
		(0.052)		(0.141)		(2.812)
HHI		0.136***		0.283***		2.538***
		(0.015)		(0.042)		(0.961)
Observations	5204	5204	4558	4558	5206	5206
Adjusted R2	0.031	0.103	0.048	0.105	0.002	0.009

This table reports the cross-sectional estimates on bank flow beta, spread beta, and spread with respect to standardized inattention plotted in Figure 9. Column 1-2 report results on deposit spread beta, corresponding to Figure 9(b); columns 3-4 report results on deposit spread levels, corresponding to Figure 9(c); columns 5-6 report results on flow betas, corresponding to Figure 9(a). Controls include HHI (deposit-weighted bank-level HHI averages during the sample period), equity ratio (for omitted-variable bias from solvency/fundamentals), non-deposit ratio (proxy for wholesale funding dependence and liquidity risk).

Table A-3: Cross-sectional evidence on deposit spread beta, spread, and flow beta

E.7. Average Spread and Inattention

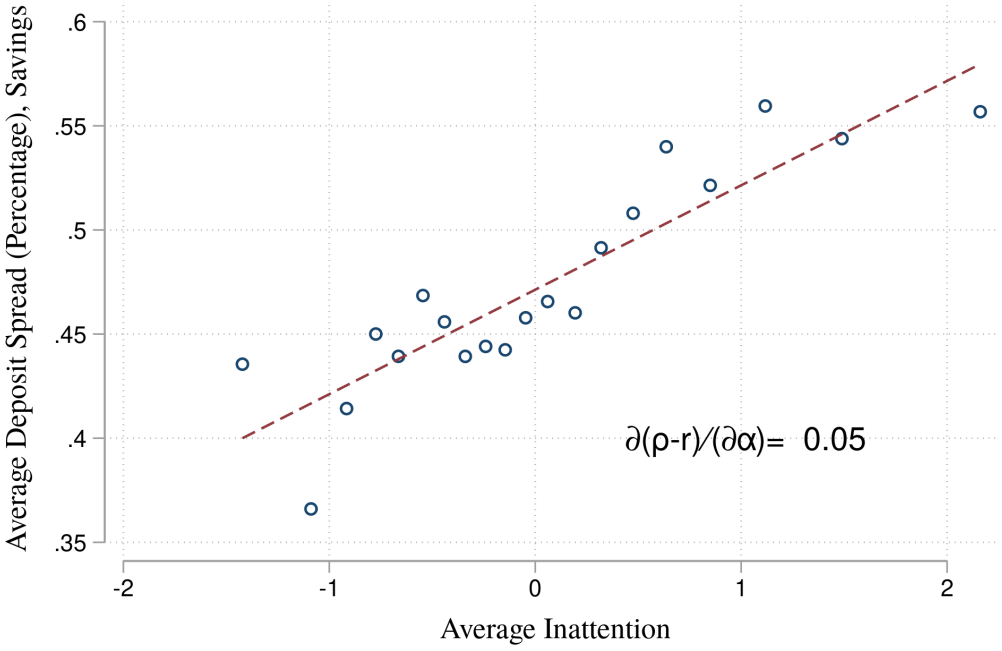


Figure A-8: Average spread and inattention

F. Additional Calibration Results

F.1. Duration Difference between Savings and NIB deposits

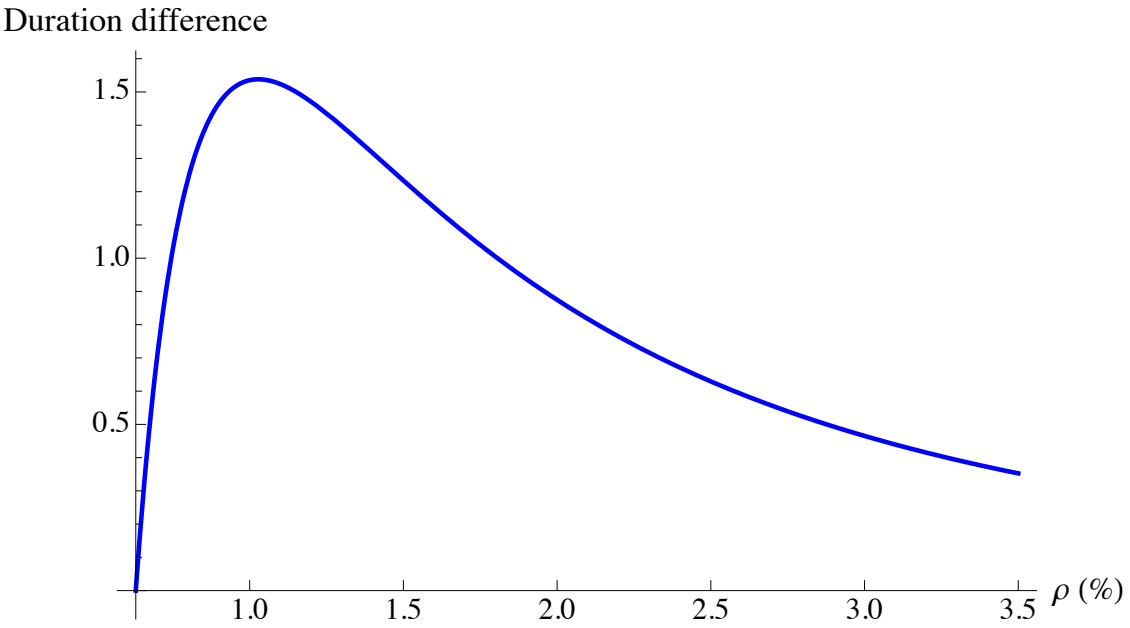


Figure A-9: Duration difference between savings / non-interest-bearing deposits

The figure plots the difference between the franchise value duration of non-interest-bearing (NIB) deposits and that of savings deposits for the baseline calibration. A positive wedge indicates that NIB balances load more heavily on interest rate risk than savings balances. The wedge attains maximum of roughly 1.5 around $\rho = 1\%$. At the 2% policy rate benchmark, the wedge is approximately 1, implying that every dollar of NIB deposits carries roughly one additional bond-equivalent year of duration risk compared with a dollar of savings deposits. As the policy rate rises further, the discounting future profit margin dominates, and the wedge gradually narrows, reaching about 0.4 when ρ is 3.5%.

F.2. Non-Interest-Bearing Deposit Size

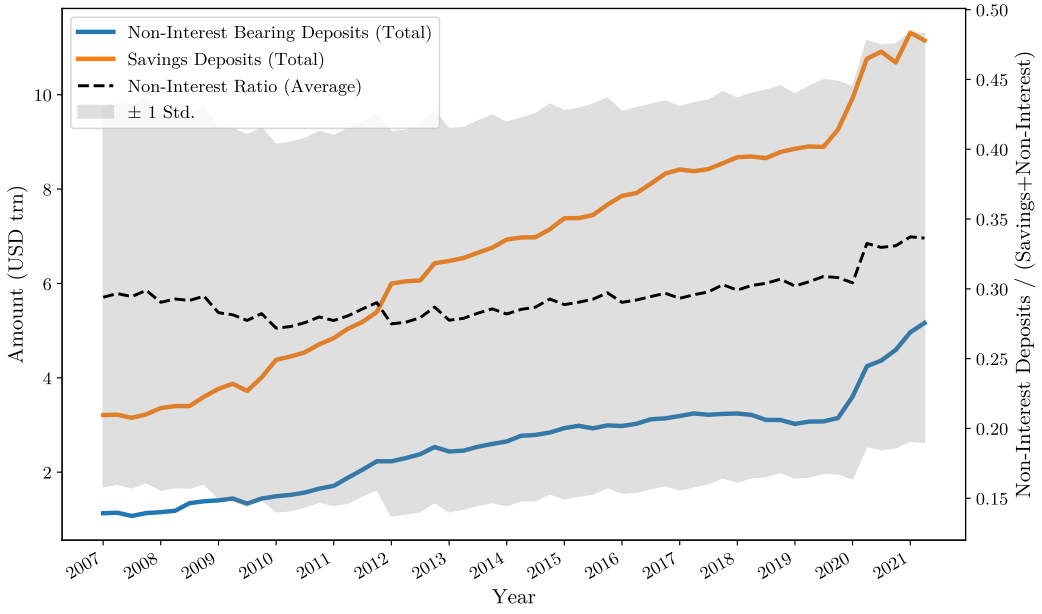


Figure A-10: Size of non-interest bearing deposits over time

The figure plots the time variation of core retail deposits using Call Report data. The left-hand axis plots the aggregate stock of non-interest-bearing deposits (NIB) and savings deposits (solid orange). The right-hand axis shows the non-interest-deposit ratio as NIB / (NIB + Savings), averaged across banks each quarter (black dashed). The grey band represents +/- one within-quarter standard deviation of this ratio across banks, illustrating the cross-sectional dispersion in reliance on zero-rate funding.

F.3. Banks' Willingness-to-Pay for an Inattentive Depositor

Banks' willingness-to-pay (WTP) for a new depositor must not exceed the present value of the profit it expects to earn from that customer's deposit balances. Under our baseline calibration, an averagely inattentive savings depositor yields about \$0.18 of franchise value per dollar, implying a bank would pay at most 18 cents per dollar for new deposits. Below, we discuss why our DFV implied willingness-to-pay is only a theoretical upper bound of banks' true WTP for two reasons.

First, banks cannot directly observe a new depositor's inattention level ex ante; depositors attracted by promotional rates might be more rate-sensitive and attentive than the average existing depositors. Thus banks need to discount the \$0.18-per-dollar franchise value by the probability that the customer will remain inattentive. As a simple back-of-the-envelope calculation, let $p \in [0, 1]$ denote the share of promo–induced new customers who ultimately behave like the average inattentive depositor ($\bar{\tau}$). Expected value per dollar of balance is then $p \times 0.18$. For instance, if only $p = 0.5$ of new depositors stay beyond the teaser period, the bank values a \$10,000 account at $0.5 \times 0.18 \times 10000 = \$900$, and will not spend more than \$900 in up-front incentives.

In practice, banks often screen depositors—such as asking for "qualifying activities" (e.g., direct deposits or maintaining a large balance every day) or residence in specific areas—and offer front-loaded cash bonuses or temporary rate bumps that hopefully lock in inattentive depositors. Table A-4 summarizes some representative promotional offers as of 2025 and converts them into empirical WTP estimates under a conservative assumption that *promo seekers depart immediately after the minimum period required for the promotion* (i.e., $p = 0$). Chase's 20 cents per dollar suggests it anticipates a higher-than-average depositor inattention among those responding to its offer; except for Chase, empirical WTPs cluster between 1 and 8 cents per dollar, far below the 18 cents per dollar maximum implied by DFV. In addition, entry to the deposit market is not competitive. Starting a new bank in the U.S. faces regulatory hurdles; from 2010 to 2023, the U.S. has averaged six new banks per year despite having more than 4,000 incumbents. Entry barriers suggest incumbent banks rarely need to pay fully competitive rates to attract deposits away from rivals, pushing acquisition costs well below the deposit franchise value of new deposits.

Finally, when would the deposit franchise value *equal* banks' WTP for a new dollar of deposits? In a frictionless, perfectly competitive deposit market, competition drives the expected net profit on each new dollar to zero, and DFV equals WTP if banks expect that the average promotion takers are as inattentive as their existing customers. Note that even with perfect competition, the cross-sectional heterogeneity of depositors still bear

Bank	Incentive	Eligibility	Cost	WTP (¢/$)
U.S. Bank	$400 cash bonus	$5,000 direct deposits	$400	8.0
Chase	$300 cash bonus	$1,500 daily balance[a]	$300	20.0
PNC	$400 cash bonus	$5,000 direct deposits	$400	8.0
TD Bank	$200 cash bonus	$10,000 daily balance[b]	$200	2.0
Citibank	promo rate, 4.25% (3mo)	$25,000 daily balance	≈ $266	1.1
SoFi	promo rate, 4.00% (6mo) +$300[c]	$5,000 direct deposits	≈ 310	3.1
Wells Fargo	promo rate, 4.60% (12mo)	$10,000 daily balance	≈ $460	4.6

[a] Chase also allows qualification via $500 of direct deposits within 90 days; using that threshold would imply a WTP of 60 cents per $1. We report the more conservative $1.5k balance requirement.
[b] TD Bank's offer is valid for *selected states* only.
[c] SoFi has an additional 0.20pp rate boost for six months, which adds about $10 of extra interest on a $10k balance; the one-time cash bonus is up to $300 depending on the size of direct deposits.
Note that promotions often have multiple tiers of cash/rate bonuses, in which case we report only the maximum promotion available applied to the maximum balance/direct deposit tier.

Table A-4: Promotional offers for depositor acquisition

important redistribution implications: as long as banks cannot perfectly price discriminate (i.e., depositor types are not fully known), cross-subsidies may persist across demographic groups, with the attentive depositors more than compensated by banks' promotions and others pay more for banks' franchise value.

F.4. Demographics and Inattention

	β_α	$s.e._\alpha$	β_τ	$s.e._\tau$	Mean	SD
	(1)	(2)	(3)	(4)	(5)	(6)
% Under 18	0.061	0.008	0.022	0.003	23.542	3.042
% Black	0.009	0.003	0.003	0.001	8.864	13.690
% Householder	0.205	0.009	0.070	0.003	39.074	3.236
% Female	-0.231	0.011	-0.077	0.004	50.070	1.942
% Asian	-0.027	0.007	-0.008	0.002	1.233	2.493
% White (Non-Hispanic)	-0.013	0.001	-0.004	0.000	78.080	18.896
% Renter	-0.020	0.003	-0.006	0.001	28.118	7.169
% Unmarried Partner	-0.334	0.037	-0.113	0.012	2.401	0.543
% Single Moms	-0.165	0.021	-0.054	0.007	6.418	2.066
$\bar{\tau}_{2010}$					2.346	0.322

All demographic covariates are expressed as percentages of the county population and are constructed from the 2010 Decennial Census five-digit ZIP Code Tabulation Area (ZCTA) file available through Missouri Census Data Center. For each variable we compute a population-weighted average across all ZCTAs within a county. % Under 18 is the share of residents younger than 18; % Black, % Asian, and % Non-Hispanic White are the shares of individuals who identify with those single-race categories, the latter excluding any Hispanic or Latino origin; % Female is the share of residents identifying as female; % Householder is the share of adults listed as the householder of their housing unit; % Renter Occupied is the share of occupied housing units that are rented rather than owned; % Unmarried Partner denotes households in which the householder cohabits with an unmarried partner; and % Single Moms denotes families headed by a female householder with own children under 18 and no spouse present. The dependent variables are two alternative measures of depositor inattention: $\alpha_{c,2010}$, the predicted annual inattention measure at county level detailed in Section 5, and $\tau_{c,2010} = 180e^{\alpha_{c,2010}}$, the inattention measured in days corresponding to model parameter. Columns 1–2 present coefficients (β_α) and robust standard errors from an OLS regression of $\alpha_{c,2010}$ on the demographic variables selected by the post-LASSO procedure; Columns 3–4 repeat the regression using $\tau_{c,2010}$; Columns 5–6 report county-level means and standard deviations for each covariate as well as $\tau_{c,2010}$.

Table A-5: Post-LASSO OLS: Demographics and inattention