

*Payday Lending and Optimism Bias:* This project explores the ability of payday loan customers to predict their use of the product. A central complaint about the product is that people that borrow from payday lenders are unable to repay the loans, roll them over indefinitely, and thus become mired in semi-permanent debt. It is often assumed that this happens because they optimistically think they will be able to pay the loans off more rapidly than in fact turns out to be the case. For this project, I administered a brief survey to about 1200 payday loan borrowers in six States at the time they received the loan. In addition to some basic demographic information, I collected information about their prior borrowing experience with payday lenders and about their expectations for repayment. After matching that data with data collected six months later about their actual borrowing behavior, analysis indicates that most of the borrowers accurately predict when they will repay the loan. The finding rebuts common claims by those seeking stricter regulation that no rational borrower would borrow from these companies. The paper is forthcoming in a special issue of the *Supreme Court Economic Review* devoted to behavioral economics.