50 Basis Points of Marriage Counseling: Monetary Policy Shocks and Marital Stability

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[PRELIMINARY DRAFT]

Abstract

This study investigates the impact of monetary policy shocks on marital stability using detailed individual-level register data from Norway. Tracking the entire population of married individuals aged 20–40 from 2005 to 2018—approximately 400,000 individuals—we find that positive monetary policy shocks—reducing disposable income—reduce the likelihood of divorce, particularly for individuals with higher interest rate exposure (net debt). At average net debt levels, a one-standard-deviation positive monetary policy shock reduces divorce probability by approximately 15% among liquidity-constrained individuals, whereas high-income and net creditor individuals are unaffected. Additionally, our findings suggest an asymmetric effect: positive policy shocks reduce divorce risk more significantly than negative shocks increase it. These results align with loss aversion behavior, as liquidity-constrained individuals respond more strongly to unexpected losses in disposable income than to gains.

Keywords: Central Banks, Households, Interest rates, Divorce

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1 Introduction

Monetary policy may seem far removed from marital decisions, yet its effects can reverberate well beyond inflation and output. In this paper, we shed light on a novel pathway through which interest rate changes—specifically unexpected policy shocks—can affect marital stability. We focus on Norway, where floating rate mortgages dominate and interest-rate pass-through is particularly strong. This setting provides a unique opportunity to isolate the causal link between changes in disposable income and the decision to separate.

Classic economic theories of marriage emphasize how couples weigh the collective gains of the formation of a household against the costs of dissolution (Becker 1973; Oppenheimer 1988). However, when a couple's income falls, the cost of running two separate households (especially on a tight budget) might deter divorce, even if the relationship is strained. Another possibility is that it amplifies conflict due to financial stress. Credibly establishing which force will dominate is difficult because most income changes are not random: households that suffer declines often differ in unobserved ways (e.g., career trajectories, risk preferences) that also affect marital stability. To address this identification challenge, we exploit monetary policy shocks as a plausibly exogenous source of variation in disposable income.

Our study makes four contributions. First, we leverage plausibly exogenous monetary policy shocks—varying annually and orthogonal to household-specific characteristics—to isolate causal income effects on marital stability. Second, we disentangle the asymmetric impacts of positive (income-enhancing) and negative (income-reducing) liquidity shocks, providing a more complete account of how financial constraints shape divorce decisions. Third, our use of comprehensive administrative data covering all Norwegian marriages in the target demographic ensures high accuracy and representativeness. Fourth, we analyze both positive and negative shocks transmitted through interest rate channels, which directly alter household liquidity.

Unlike prior work that rely on aggregated data (e.g., state- or national-level indicators, see Glass and Levchak (2014) or Chowdhury (2013)), survey data (Killewald, Lee, and England 2023) or utilizing unilateral income shocks (e.g., lottery windfalls as in Golosov et al. (2024), Cesarini et al. (2023) and Hankins and Hoekstra (2011)), we link individual-level Norwegian administrative data on married couples to the annual monetary policy shock series from Holm, Paul, and Tischbirek (2021). Covering the entire population of married individuals aged 20-40 from 2005-2018, our dataset allows precise estimation of how both gains and losses in disposable income affect divorce risk.

The Norwegian institutional context offers two critical advantages. First, both mortgage rates and deposit rates are very sensitive to policy rate changes: Juelsrud, Nordal, and Winje (2020) estimates that more than 80% of policy rate changes are transmitted to bank lending rates within a quarter during our sample period

(2002-2017). In addition, as shown by Holm, Paul, and Tischbirek (2021), the deposit rates closely follow the policy rate in Norway. Second, Norway's mortgage market features floating interest rates for 90-95% of loans,[1] ensuring monetary policy shocks directly impact disposable income through debt servicing costs. This contrasts to the United States, where mortgage contracts are typically issued with a fixed rate. To capture the cash-flow channel linked to interest-sensitive assets and debt holdings, we rank households based on their net interest rate exposure, a metric closely aligned with Auclert (2019) concept of âunhedged interest rate exposure, and which is defined as debt less bank deposits.

Our findings reveal three key patterns. First, positive monetary policy shocks (i.e. interest rate hikes) reduce divorce probability, particularly among indebted, liquidity-constrained households in lower income brackets. Negative shocks (i.e. rate cuts) decrease mortgage burdens but do not symmetrically elevate divorce probability. Second, high-income households exhibit negligible responses to either shock, suggesting liquidity constraints drive divorce decisions in the lower income brackets. Third, the asymmetric impact of positive and negative policy shocks aligns with loss aversion behaviour, where households are more affected by income losses compared to equivalent gains. These results demonstrate how central bank policies exert micro-level influence on family stability.

At average levels of individual net debt, a one standard deviation monetary policy shock decreases the probability of separation by approximately 0.23 percentage points. This corresponds to a 9.7 percent reduction relative to the average separation rate of 2.38 percent. It means that if all households were average in terms of net debt, a one standard deviation policy prevents 1 separation for every 435 marriages.

For an individual with high net debt (75th percentile), the effect of a one standard deviation increase in the interest rate reduces the probability of separation by 0.26 percentage points, representing an 11 percent reduction relative to the mean rate. In practical terms, this means a standard deviation policy shock prevents one separation for every 385 marriages.

When marriages dissolve, the emotional and financial costs are substantial for individuals and society. Divorce strains legal systems, social services, and healthcare infrastructure, particularly when spouses lose employer-linked benefits or face reduced earnings. Workplace productivity may also decline during protracted legal proceedings.

However, being unable to exit a dysfunctional marriage due to liquidity constraints potentially also carries great costs. This could include income loss, missed job opportunities, and wealth erosion due to mismanagement of joint assets. The inability to leave may prevent individuals from investing in education

[1] https://www.norges-bank.no/bankplassen/arkiv/2019/sterk-preferanse-for-flytende-rente-i-norge/

or skill development, limiting long-term financial prospects. Health costs may also increase as chronic stress and mental health issues reduce productivity and result in higher medical expenses. On a social level, prolonged exposure to conflict affects mental and physical health and has lasting impacts on children, who may experience developmental and emotional challenges. Liquidity constraints trap people in cycles of dependency, reducing social mobility and straining public resources. By preventing individuals from moving forward and achieving financial independence, these constraints create broader societal costs that undermine personal well-being and economic stability.

Existing empirical evidence on the link between income and divorce remains inconclusive. Unanticipated income windfalls (e.g., lottery wins) can hasten divorce by loosening liquidity constraints (Cesarini et al. 2023; Hankins and Hoekstra 2011), while permanent income increases (e.g., pension reforms) may stabilize marriages through intra-household bargaining (Berniell, Mata, and Machado 2020). Broader syntheses emphasize context-dependent, nonlinear relationships between income and divorce (Browning, Chiappori, and Weiss 2014). Our study bridges these perspectives by isolating disposable income shocks (via monetary policy), demonstrating that both the direction and magnitude of income changes shape marital outcomes.

Our work shows that macro-level policies like interest rate adjustments produce micro-level consequences, with real effects on family stability. In addition, by documenting how gains and losses in disposable income differentially influence divorce decisions, we allow a better understanding of the economic determinants of marital dissolution.

This paper proceeds as follows; Section 2 describes the data and methods used, Section 3 presents the main result along with some robustness checks, and Section 4 concludes.

2 Data and methods

We use annual administrative data from Norway, provided by Statistics Norway.[2] For the sample period 2005-2018, we retrieve individual-level data for all individuals, but limited to those that were married in 2005 (some 410,000 individuals). The panel essentially tracks these individuals over the sample period. We restrict the sample to individuals aged 20-40 in 2005 (that is, prime working-age households). This choice ensures that all couples are exposed to policy-induced changes in mortgage and labor markets over the next decade, avoiding confounding retirement-related effects that might arise with older cohorts. Moreover, focusing on

[2]Data is analyzed through its subscription-only research data service microdata.no

prime-age adults makes the sample more homogeneous in terms of life-cycle stage, as older couples are often less leveraged and may face different incentives for divorce.

For each year, we record each persons' marital status, number of child births and how many children each person has, the person's age, their personal income, the households' income, how many years they have been married and their net debt position (debt - bank deposits). The complete summary statistics for the variables included in the regressions, see Table 1.

In Norway, a couple who wants to end their marriage has to apply to local authorities for separation and must stay separated for one year before the divorce is legally finalized. In our setup, we study the timing of a change in status from being married to becoming separated, since this is the decision variable that is likely to be affected by contemporaneous economic variables (and since the legal divorce takes one year to be fulfilled). The processing time for separation applications is stated to be approximately three weeks.[3]

As our measure of annual monetary policy shocks, we utilize the policy shock series from Holm, Paul, and Tischbirek (2021), who construct the shock series on a meeting-by-meeting basis as the residual from the following regression:

$$\Delta i_m = \alpha_1 + \alpha_2 i_{m,-1} + \sum_{k=0}^{1} \beta_k^{\pi} \pi_{m,t+k} + \sum_{k=0}^{1} \beta_k^{\Delta\pi} \Delta\pi_{m,t+k} + \sum_{k=0}^{1} \beta_k^{y} y_{m,t+k} + \sum_{k=0}^{1} \beta_k^{\Delta y} \Delta y_{m,t+k} + \gamma_1 ex_{m,-1} + \gamma_2 I_m^{IT} \cdot ex_{m,-1} + e_m^{MP}, \quad (1)$$

where Δi_m is the change of the policy rate at meeting m and $i_{m,-1}$ is the level of the policy rate prior to meeting m. Meeting m takes place in period t. Also, they include central bank forecasts for GDP $y_{m,t+k}$ and the CPI $\pi_{m,t+k}$ for horizon $t+k$ and the corresponding forecast changes, denoted $\Delta\pi_{m,t+k}$ and $\Delta y_{m,t+k}$. They use historical forecasts from Norges Bank for all policy meetings, whenever these were constructed shortly before a meeting. When this is not the case, they follow Cloyne and Hürtgen (2016) in using forecasts by market participants to proxy for the forecasts of the central bank. The residual term e_m^{MP} is a measure of the monetary policy shock associated with meeting m, and for the annual series, these shocks are summed for each calendar year.

[3]In cases where only one party applies, it may take from five weeks to five months, for more details see https://www.statsforvalteren.no

Our main empirical model estimates the probability that an individual will become separated from their spouse using the following specification:

$$\text{Sep}_{i,t} = \alpha + \beta\big(\text{PolicyShock}_t \times \text{NetDebt}_{i,t}\big) + \mathbf{X}_{i,t}\boldsymbol{\Gamma} + \gamma_i + \delta_t + \varepsilon_{i,t}, \tag{2}$$

where $\text{Sep}_{i,t}$ is a dummy variable equal to 1 in the year individual i becomes separated, and 0 otherwise. PolicyShock_t is a monetary policy shock in year t. $\text{NetDebt}_{i,t}$ captures individual i's net debt (debt minus bank deposits) in year t. $\text{PolicyShock}_t \times \text{NetDebt}_{i,t}$ is the interaction term relating monetary policy shocks to each individual's net debt. $\mathbf{X}_{i,t}$ is a vector of additional control variables (e.g., years married, age, individual wage, household income, standalone net debt), and $\boldsymbol{\Gamma}$ is the corresponding coefficient vector. γ_i are individual fixed effects, accounting for time-invariant differences across individuals, δ_t are year fixed effects, capturing macro-level shocks common to all individuals in a given year, and $\varepsilon_{i,t}$ is the error term, clustered on the married couple level.[4]

3 Results

Table 2 presents the results of the regression analysis investigating the relationship between net interest exposure, policy shocks, and the likelihood of separation. The dependent variable in all specifications is the separation indicator, which captures whether an individual experiences a separation in a given year. The table includes three columns, corresponding to the full sample (Column 1), a subsample of individuals in low-income households (Column 2), and a subsample of individuals in high-income households (Column 3).

Column 1 reports results for the full sample and for both positive and negative policy shocks. The coefficient for net interest exposure is 0.000342, indicating that at the sample average level of net interest exposure (1.13), the likelihood of separation increases by approximately $0.000342 \times 1.13 = 0.0004$, or 0.04 percentage points, which is practically negligible. The interaction term between net interest exposure and the policy shock is -0.000724, implying that a one standard deviation policy shock (0.41) reduces the probability of separation by $-0.000724 \times 1.13 \times 0.41 \approx -0.0003$, or 0.03 percentage points. Combined, this suggests that the magnitudes of effects for the full sample, aggregating positive and negative shocks, are tiny but that the policy shock can offset the (small) increased risk of separation associated with higher net interest exposure.

[4]Since the timing of separation will be identical for two people in a marriage, even though control variables and predictors are not, standard errors are not identically and independently distributed across individuals. Hence, its is crucial to allow for correlated errors within couples.

Compared to the mean separation rate of 1.8 percent for the full sample, the 0.03 percentage point reduction represents an 1.6 percent decline in separations.

Column 2 focuses on individuals in low-income households, defined as being below the median in terms of household income. The coefficient for net interest exposure is -0.001425, indicating that for a one standard deviation increase in net interest exposure, the likelihood of separation decreases by approximately $-0.001425 \times 0.96 = -0.0014$, or 0.14 percentage points. The interaction term with the policy shock is -0.00176, implying that a one standard deviation policy shock reduces the likelihood of separation by $-0.00176 \times 0.96 \times 0.41 \approx -0.0007$, or 0.07 percentage points. The combined mitigating effect of the policy shock represents a reduction in separation likelihood by 0.21 percentage points, equivalent to 9% percent of the mean separation rate, which is 2.38 percent for this income group.

Column 3 examines individuals in high-income households, with 2,489,154 observations from 320,681 individuals. The coefficient for net interest exposure is 0.00067, indicating that for a one standard deviation increase in net interest exposure, the likelihood of separation increases by approximately $0.00067 \times 1.9 = 0.001273$, or 0.13 percentage points. The interaction term with the policy shock is negative but not statistically significant, suggesting no meaningful mitigating effect of the policy intervention in this group. Compared to the mean separation rate of 1.38 percent, the 0.13 percentage point increase in divorce risk following a one standard deviation increase in net interest exposure represents a 0.1 percent rise in separation likelihood, which is economically insignificant.

Overall, the results suggest that the impact of net interest exposure and policy shocks on separation differs substantially by income group. While net interest exposure is positively associated with separation in the full sample and high-income households, its impact is strongly negative in low-income households. Moreover, the mitigating effect of the policy shock is most pronounced for low-income households, reducing the probability of separation by as much as 9 percent compared to the mean. Another way of looking at the effect size is that a policy shock prevents one divorce for every 476 marriages.

In Figure 3, the left plot shows the impact coefficient for the monetary policy shock interacted with net interest exposure across all ten income deciles, where income is measured on the household level. The clear pattern is that the negative effect of a monetary policy shock is present for households that have lower than median income. For higher than median income households, the effect of monetary policy shocks is no different form zero for most of the deciles.

Next, we allow for negative and positive monetary policy shocks to have an asymmetric impact on the risk of separation. Based on the work by Kilian and Vigfusson (2011), we add the original monetary policy

shock series, along with an additional term that only contains the positive shocks. Both are interacted with our measure for net interest exposure. In the right panel of Figure 3 we plot both estimated coefficients, the ones reflecting the impact of positive shocks (in orange) and the ones reflecting the impact of negative shocks (in blue). The first thing to note is that the impact estimates from positive monetary policy shocks across the income deciles are larger in magnitude than the impact estimates of the negative shocks. It also appears that the negative estimate for the interaction term in the aggregated regressions are driven by the positive monetary policy shocks. The largest (negative) impact from a positive monetary policy shock is for the second lowest income decile. For this income group (counting about 166,000 individuals), the impact of a one standard deviation increase in net interest exposure and a one standard deviation monetary policy shocks yields a decrease in the probability of divorce of about 15% compared to the mean. This means that one divorce is prevented for every 256 marriages that are exposed to the policy shock.

3.1 Net debtors vs. net creditors

How does the impact of monetary policy shocks impact individuals that are net debtors, i.e. have more debt than deposits, vis-a-vis individuals that are net creditors, i.e. have more bank deposits than debt. The results in Figure 4 show the contrast between the effects of interest rate changes on net debtors and net creditors across income deciles. In the first plot, which represents net debtors, the estimated coefficients are negative across deciles 1-4, suggesting that higher interest rates are associated with a reduction in the likelihood of separation. The effect appears strongest for individuals in the lower income deciles (particularly the 2nd and 3rd), with coefficients around -0.003 to -0.004. This aligns with the expectation that net debtors, especially those with lower incomes, experience more financial strain from interest rate hikes due to increased debt servicing costs.

In contrast, the right plot, which shows the impact of monetary policy shocks for net creditors, displays a more varied pattern. Here, the coefficients are predominantly positive for most deciles, particularly in the middle of the distribution, suggesting that higher interest rates are associated with an increase in divorce risk for individuals who hold more bank deposits than debt. The most pronounced positive effects are seen in the 2nd and 3rd deciles, where coefficients exceed 0.006 and 0.01, respectively. However, the effects become smaller and less significant in the higher deciles, with some estimates overlapping zero. This pattern is consistent with the notion that lower-income net creditors, who may rely more on interest income relative to wage income, benefit more from rising rates, whereas the impact on higher-income net creditors is more

muted, possibly due to being less dependent on interest income and thus responding less strongly to changes in interest rates.

3.2 Robustness

Next, a placebo test is conducted to assess the robustness of the estimated effects. To this aim, a placebo version of the monetary policy shocks is created by randomly reordering the shock series. The main reason for doing this exercise is to determine whether the observed relationship in the original estimation is genuine or if a similar pattern can emerge purely by chance when randomizing the shocks.

Since this variable was generated by randomly shuffling the actual monetary policy shocks, any meaningful relationship between monetary policy and divorce rates should, by construction, disappear. The model specification remains unchanged.

The results from the placebo regression are plotted across income deciles in Figure 5. The placebo coefficients are generally close to zero, with confidence intervals spanning both negative and positive values. Unlike the actual estimates, which exhibit structured variation across deciles, the placebo estimates display no systematic pattern. Furthermore, there is only one statistically significant coefficient, which is reassuring.

Thus, the placebo test suggests that the estimated relationship between monetary policy shocks and divorce rates in the main analysis is unlikely to be spurious.

4 Conclusion

This paper examines the impact of monetary policy shocks on marital stability, using administrative data from Norway covering the period 2005 - 2018. By leveraging exogenous variations in household liquidity caused by policy-induced interest rate changes, we provide new evidence on the link between financial constraints and the risk of marital dissolution.

Our findings indicate that positive monetary policy shocks - interpreted as unexpected increases in interest rates - reduce the likelihood of separation, particularly among liquidity-constrained households with high net debt. In contrast, high-income households appear unaffected, underscoring the role of financial distress in shaping marital outcomes. Moreover, the effect is asymmetric: while contractionary shocks significantly decrease the probability of separation, expansionary shocks do not correspondingly increase it. This asymmetry is consistent with behavioral models of loss aversion, suggesting that households are more sensitive to financial strains than to improvements in disposable income.

A placebo exercise, in which monetary policy shocks were randomly reassigned across years, further reinforces the credibility of our findings. The lack of a systematic relationship in the placebo estimates suggests that our observed effects are unlikely to be driven by spurious correlations or unobserved confounders.

These results contribute to a growing literature on the broader socioeconomic effects of monetary policy. While central banks primarily aim to manage inflation and economic activity, our findings highlight the unintended microeconomic consequences of interest rate adjustments on family dynamics. In particular, they suggest that contractionary monetary policy can have unexpected stabilizing effects on marriages, at least for households with significant financial liabilities.

In summary, this study provides novel evidence on how economic policy affects household behavior on a personal level. As such, it bridges a gap in our understanding of the link between monetary macroeconomic shocks and social and familial structures.

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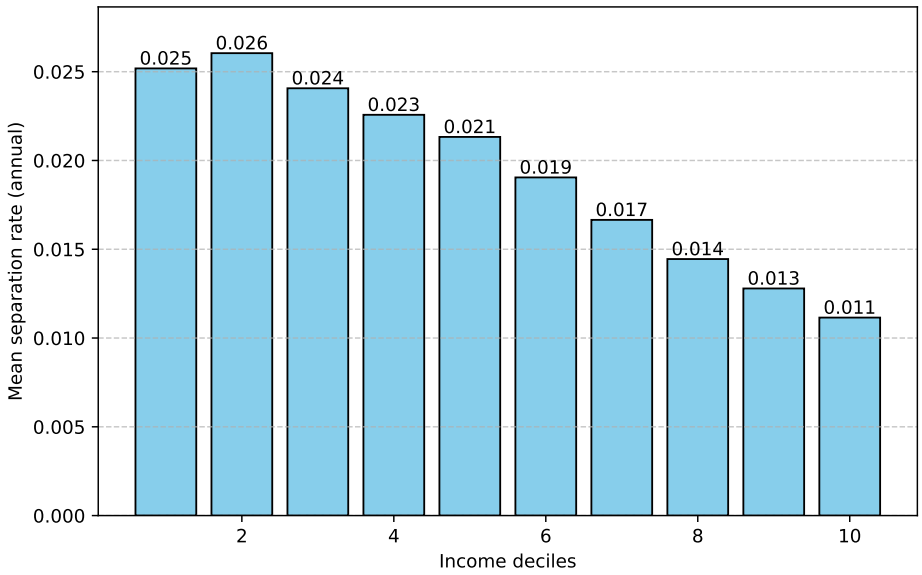
Table 1 Summary Statistics

Variable	Mean	Std. Dev.	Count	1%	25%	50%	75%	99%
Net Interest Exp.	1.1371	1.4105	5,907,372	-1.02	0.0060	0.776	1.79	6.91
Monetary policy shocks	0.1829	0.4026	5,907,372	-0.51	-0.11	0.195	0.64	0.70
Positive monetary policy shocks	0.2764	0.2879	5,907,372	0	0	0.195	0.64	0.70
Separation indicator	0.0180	0.1331	5,485,414	0	0	0	0	1
Number of Children	1.6692	1.1035	5,907,372	0	1	2	2	4
Wage	0.3992	0.3045	5,907,372	0	0.189	0.381	0.548	1.51
Income	0.5877	0.3787	5,136,177	0.0163	0.368	0.499	0.6930	2.48
Age	40.4927	5.9641	5,907,372	26	36	41	45	52
Years Married	19.0233	5.4346	5,907,372	3	16	19	23	27

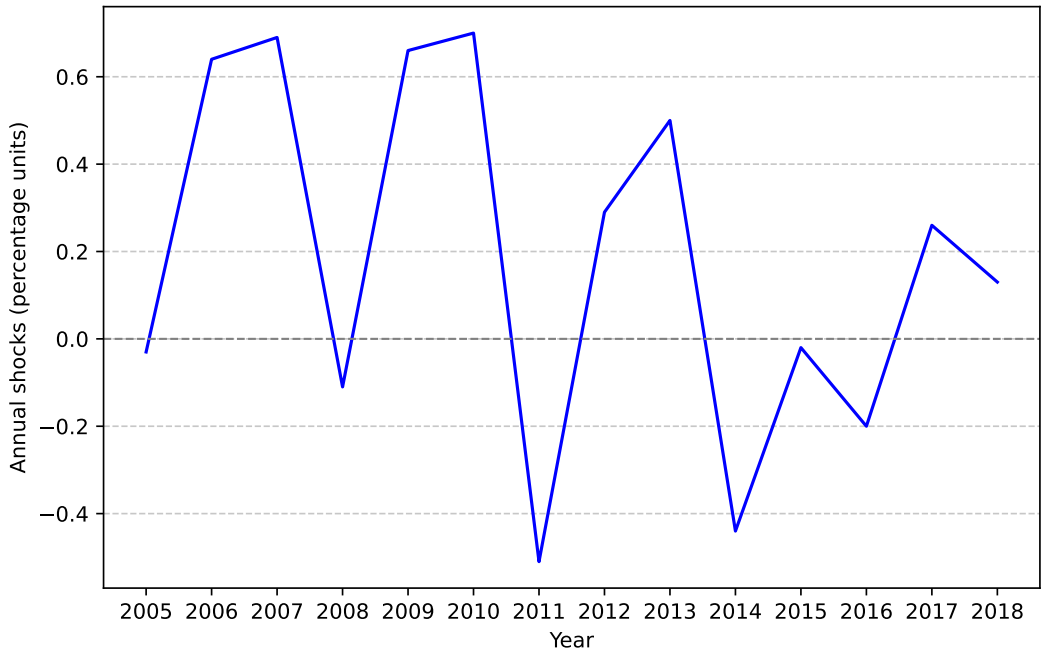
Notes: The Table reports summary statistics for the 421,960 individuals that were married in 2005, measured across a time period from 2005-2018, amounts to about 5,900,000 observations. Net Interest Exp. is the individual's interest-bearing debt less bank deposits, measured in Norwegian currency (NOK), Monetary policy shocks is the series of unanticipated annual policy rate changes, while Positive monetary policy shocks restricts the series to positive innovations in the interest rate, with the negative set to zero, Separation indicator is an indicator variable equal to one in the year an individual becomes legally separated, Number of children is the number of children that the individual has parental responsibility for, Wage is the individuals' wage income, Income is the combined household income in the household that the individual belongs to (both wage and income are measured in millions for better scaling of estimates in the regressions), Age is the individuals age and Years married is the number of years that the individual has been in the current marriage.

Fig. 1 Mean annual separation rate by income decile



Notes:

Fig. 2 Monetary policy shocks (2005-2018)



Notes: The Figure shows the annual residuals from the estimation of the regression model 2, which constitute the series of monetary policy shocks from 2005-2018. The values are aggregated as a sum of the estimated shocks from all monetary policy meetings during a calendar year.

Table 2 Regression Results

Dep.var.: Separation indicator	(1) All	(2) Low income	(3) High income
Net interest exposure	0.000342***	−0.001425***	0.00067***
	(0.000087)	(0.00023)	(0.000121)
Net interest exposure x Policy shock	−0.000724***	−0.00176***	−0.000198
	(0.000116)	(0.000204)	(0.000145)
Nr. of years married	0.000158	−0.000452*	−0.000338*
	(0.00018)	(0.000193)	(0.000162)
Wage (individual)	0.005971***	0.00398***	0.003177***
	(0.000471)	(0.000814)	(0.0004)
Income (household)	−0.000349***	0.008782***	−0.000116
	(0.000099)	(0.001787)	(0.000088)
Nr. of children	−0.016955***	−0.019617***	−0.016433***
	(0.000542)	(0.000666)	(0.000420)
Observations	4,776,140	2,286,976	2,489,154
Number of individuals	411,596	342,024	320,681
Individual and year FE	Yes	Yes	Yes

Notes: This table presents regression results for the dependent variable, Separation indicator, across three specifications. The full sample (Column 1) includes individuals across all income categories, the low-income households (column 2) includes only individuals from households that are below the median income level, and the high-income households (column 3) includes only individuals from households above the mean income. The key independent variable is Net interest exposure interacted with the monetary policy shock. The regressions also control for several other variables: number of years married, individual wage level, household income, and number of children. Standard errors are reported in parentheses below the coefficient estimates, and statistical significance is indicated by * ($p<0.05$), ** ($p<0.01$), and *** ($p<0.001$). Additionally, the models incorporate individual and year fixed effects to account for unobserved heterogeneity over time and across individuals.

Fig. 3 Impact of policy shock on divorce across income deciles

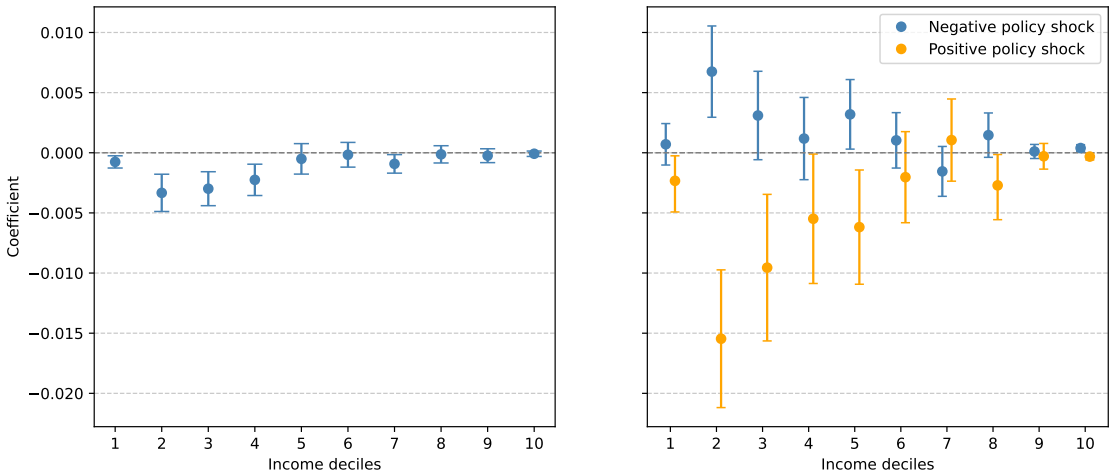
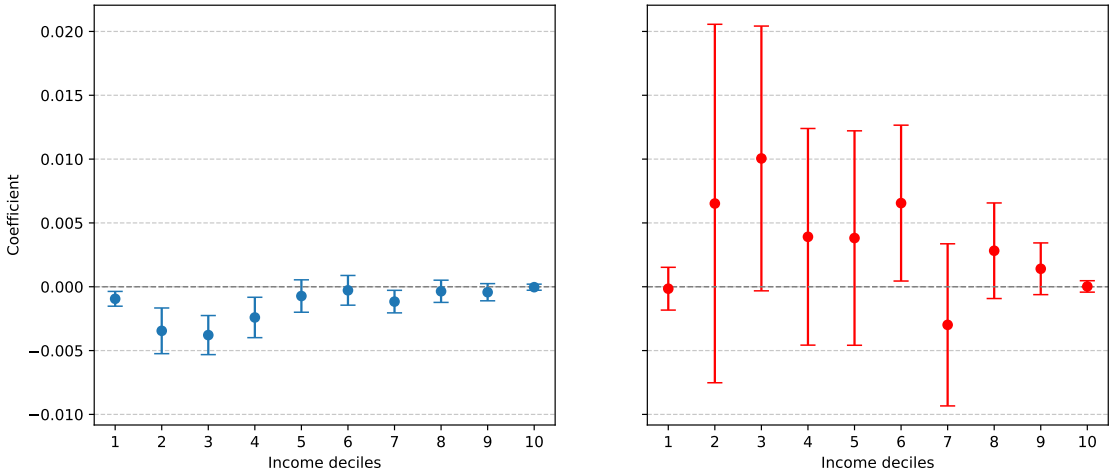
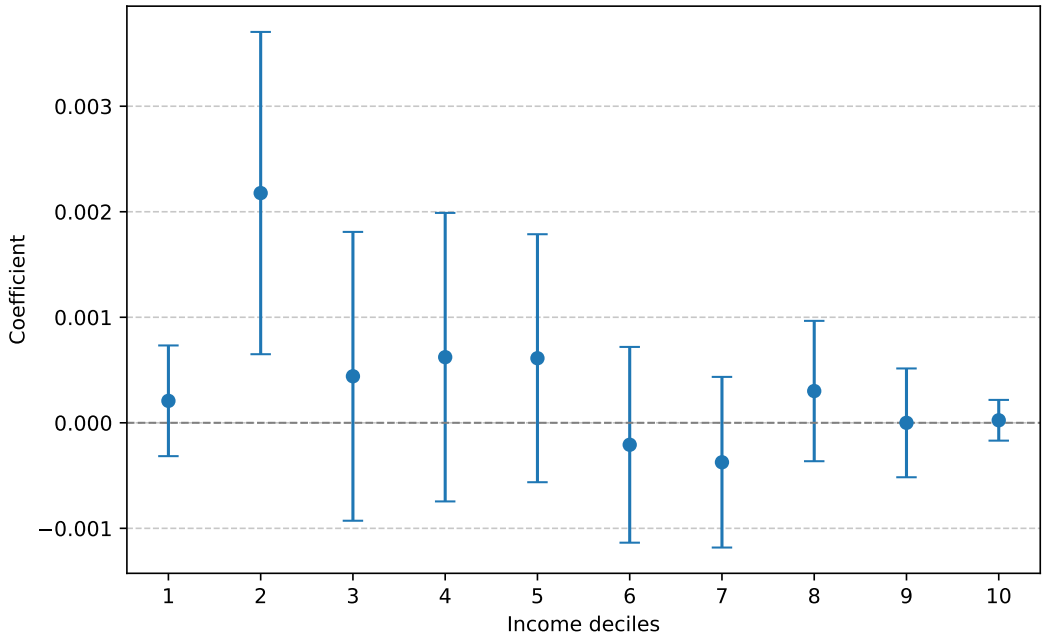


Fig. 4 Net debtors (left) vs. net creditors (right)



Notes: The upper left plot shows the point estimates of the impact of a one percent monetary policy shock on divorce probability, across the income deciles, with the left-most decile being the lowest income decile. The upper right plot shows the separate point estimates for positive (in orange color) and negative shocks for all income deciles. The lower left plot shows the point estimate of a one percent positive monetary policy shocks for all households that are net debtors, while the lower right plot shows the point estimate of a one percent positive monetary policy shocks for all households that are net creditors. Error bars are 95 percent CI.

Fig. 5 Impact estimates of placebo monetary policy shocks



Notes: The plot shoes the point estimates of a one percent positive monetary policy shock on divorce probabilitym when the monetary policy shocks have been randomly reordered in order to represent placebo monetary policy shocks. Error bars are 95 percent CI.