2016 CFPB Research Conference

Discussion Panel 4: Insights into Consumer Decision Making

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Motivation

Behavioral factors $\rightarrow$ individual financial outcomes

- What behavioral factors matter for financial decision-making and how?
- Is there heterogeneity within a given person across BFs?
- Is there heterogeneity across people for a given BF?
- Are behavioral factors stable over time?
- Are behavioral factors context dependent?
- Do behavioral factors change for financial decisions over different time horizons?
- How should we measure different behavioral factors?

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"From Proliferation to Parsimony in Behavioral Economics"
(Stango et al.)

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Motivation

"Awareness of Self-Control: Theory and Evidence"
(Incekara-Hafalir and Linardi)

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Motivation

"Economic Scarcity and Consumer Credit Choice"
(Bos et al.)

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Many ways to answer these questions

- Stango, Yoon, and Zinman
  - Using survey, measure present/future-biased discounting of money with allocation of tokens between smaller-sooner and larger-later amounts
  - Match with measures of financial outcomes from survey
- Incekara-Hafalir and Linardi
  - Using survey, measure deviation in responses to "How much would you ideally like to save in the next 4 weeks" (self-reported ideal) and "How much do you think you will actually save in the next 4 weeks" (predicted behavior)
  - Match with collected data on financial behavior
- Bos, Le Coq, and van Santen
  - Exploit quasi-experimental variation in scarcity in combination with assumption "that a sharp but short-lived drop in financial resources before payday (i.e. an increase in scarcity) itself induces shortsighted behavior" as suggested by Shah et al. (2012)
  - Match with detailed administrative dataset on consumer credit choices

From Proliferation to Parsimony in Behavioral Economics...

Victor Stango, Joane Yoong, and Jonathan Zinman

- Looks at multiple (17!) behavioral factors together
- Controls for a host of characteristics - demographics, cognitive ability measures, risk/time preferences - to show that BFs are capturing something distinct
- Shows that heterogeneity in behavioral summary stats explains cross-sectional variation in financial condition/outcomes

From Proliferation to Parsimony in Behavioral Economics...

Victor Stango, Joane Yoong, and Jonathan Zinman

Comments:

- Multiple behavioral factor approach $\rightarrow$ important step for thinking about practical application of BE in policy
- Flexible toolkit that can be used to study a host of additional questions
- We learn about a lot about "types"
  - significant heterogeneity in BFs across individuals
  - BFs are positively correlated with each other within individuals
  - most people are behavioral in some way (and not just a little bit)

Suggestion:

- Paper would benefit from more explicit examples or "case studies" of how estimates differ for single factor studies vs. this multi-factor approach

Awareness of Self-Control: Theory and Evidence

Elif Incekara-Hafalir and Sera Linardi

- Expected Deviation: self-reported deviation between ideal and predicted (savings) behavior
- From O'Donoghue and Rabin (2003):

$$0 \leq \beta \leq \beta^{`} \leq 1$$

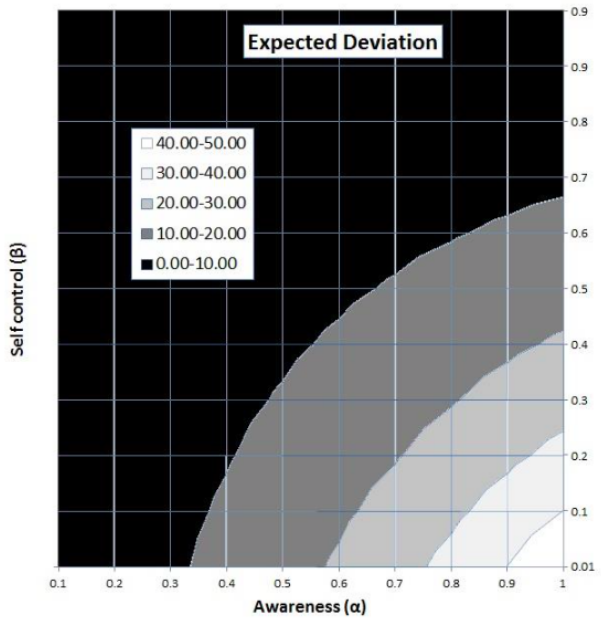
  - Time Consistent: $\beta = 1$
  - Sophisticated: $\beta^{`} = \beta < 1$
  - Fully Naive: $\beta < \beta^{`} = 1$
  - Partially Naive: $\beta < \beta^{`} < 1$

- This paper:

$$\beta^{'} = 1 - \alpha(1 - \beta) \text{ with } 0 \leq \alpha \leq 1$$

Awareness of Self-Control: Theory and Evidence

Elif Incekara-Hafalir and Sera Linardi



- As ED ↑, use of committed savings also ↑ but no effect on other outcomes with no commitment device
- Relationship between ED and committed savings ↑ for sub-populations likely to have severe self-control problems (addicts and dropouts)
- Relationship between ED and committed savings ↑ when facing higher stakes

Awareness of Self-Control: Theory and Evidence

Elif Incekara-Hafalir and Sera Linardi

Comments:

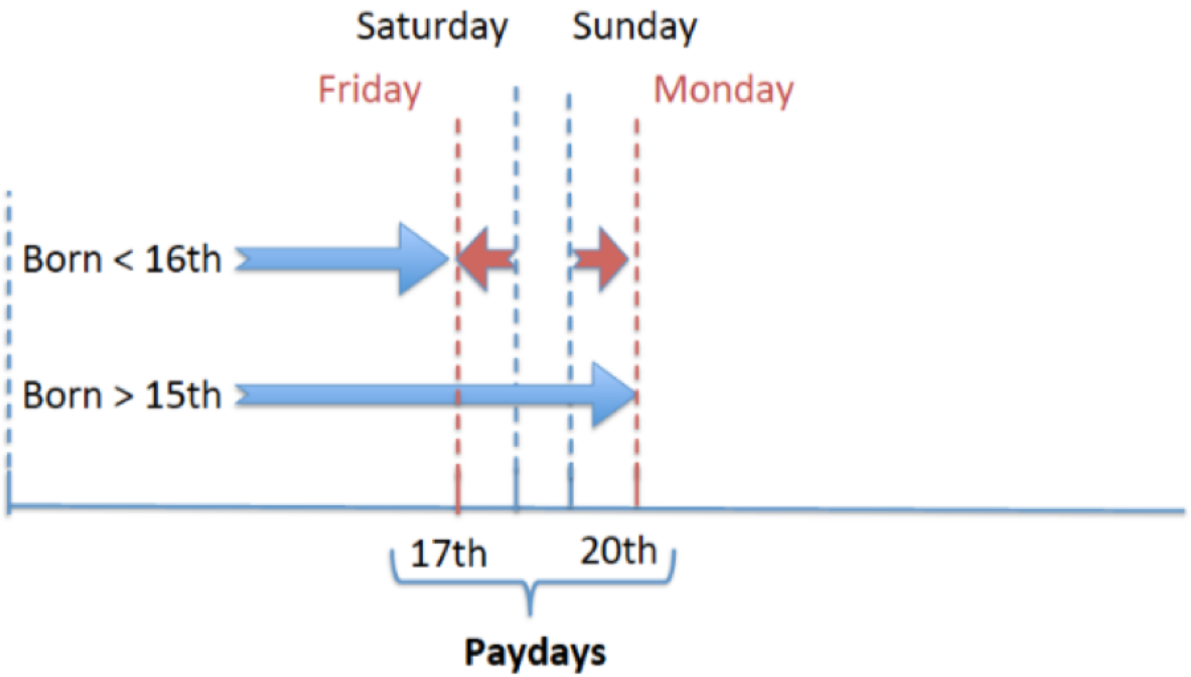
- Important and difficult problem to address
- Highlights the need to consider carefully what surveys are measuring in heterogeneous populations
- Focuses on a very interesting and understudied population - homeless individuals

Suggestion:

- More detail on commitment device (lockbox) and shelter. Commitment devices prevent you from giving into temptation but can also have other benefits (e.g. 401k accounts are tax-advantaged, commitment device may be used for signaling purposes)
- Lockboxes also prevent others from taking your money $\rightarrow$ ED may reflect belief or concern that others will steal your money.

Economic Scarcity and Consumer Credit Choice

Marieke Bos, Chloe Le Coq, and Peter van Santen



- Exploit variation in length of pay cycle (ranges from 28 to 34 days) between early born and late born

Economic Scarcity and Consumer Credit Choice

Marieke Bos, Chloe Le Coq, and Peter van Santen

Findings:

- No effect of increased scarcity on pawn usage in aggregate.
- Differential effect by education $\rightarrow$ low-educated consumers significantly more likely to take out a pawn loan during periods of increased scarcity relative to high-educated

Comments:

- Addresses important and relevant question using real-world choices
- Uses fantastic administrative data and really neat source of quasi-experimental variation
- Does so in a careful, believable way

Economic Scarcity and Consumer Credit Choice

Marieke Bos, Chloe Le Coq, and Peter van Santen

Suggestions:

- Interpretation needs more support
  - Schooling is a proxy for sophistication.
  - If $\uparrow$ scarcity induces short-sighted behavior ($\beta^{scarcity} < \beta$), sophisticated consumers who is aware of own bias would choose smaller loan and be less likely to take out a loan when $\uparrow$ scarcity
  - Underlying assumption: sophisticated consumer is forward-looking enough to recognize future tradeoffs affected by β but not forward-looking enough to realize $\beta^{scarcity}$ applies to now and not future?
- Do high-educated consumers have differential access to informal credit from friends and family?

Economic Scarcity and Consumer Credit Choice

Marieke Bos, Chloe Le Coq, and Peter van Santen

Coping Channels (Lusardi et al.; BPEA 2011)	**Fraction choosing channel**
Draw from savings	61.3 %
Liquidate or sell investments	0%
Liquidate some retirement investments, even w/ penalty	4.1%
Borrow or ask for help from my family	**10.8%**
Borrow or ask for help from my friends	**2.7%**
Use credit cards	7.3%
Take out an unsecured loan	2.1%
Get a short-term payday or payroll advance loan	0.7 %
Pawn an asset I owned	1.1%
Sell things I owned, except my home	2.9%

- Might be able to look into this in other data, e.g. FRB Survey of Household Economics and Decisionmaking