

Consumer Decisionmaking: Insights from Behavioral Economics

Understanding Consumers' Behavior

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Neighborhoods Project

- Collaborative research project
NSF Grants SES 0752855, SES 0827350, SES 0943449
Data on preferences (today), also health behaviors,
education, home maintenance, energy usage,...
Work in progress (preliminary, and descriptive)
- Main goal identify effect of public investment
South Dallas, poised to receive public investment
West Dallas, similar income levels
East Plano, similar racial composition, higher income
Before/After measures (today, just before)

	South Dallas	West Dallas	East Plano	UTD	Total
N	237	263	97	115	712
Median HH income	\$16,043	\$22,555	\$54,000	-	-
<i>Demographics</i>					
Female	62.9%	64.5%	65.6%	40%	60.1%
Age, years	37.9	40.8	37.9	22.0	36.3
Kids in HH	1.5	1.7	1.9	0.6	1.5
Years in NH	15.5	21.0	11.5	2.1	14.8
<i>Marital Status</i>					
Single	49.4	40.7	21.6	88.7	48.7
Married	27.4	41.1	52.6	10.47	33.3
Divorced	18.6	11.8	20.6	0.9	13.5
Widow	4.2	5.7	5.2	0.0	4.2
<i>Ethnicity, %</i>					
White	1.3	0.4	12.4	47.0	9.8
Black	78.5	31.2	26.8	12.1	43.3
Hispanic	19.4	66.9	56.7	7.0	40.0
Other	0.8	1.5	4.1	33.9	6.9

Recruiting

\$\$\$. . .
for your thoughts!
 Fair Park Residents...
We Want to Know What You Think!

- Participate in a UNIVERSITY OF TEXAS AT DALLAS study
- You will be paid \$20 in cash for arriving on time
- You can make **much more \$\$\$!**
- It takes only **three hours**
- Confidentiality and privacy are protected

Call Now to Register!!!
(972) 883 - 4880

The study uses financial incentives to simulate real life decisions.

The study will be conducted at the
The Joseph House
 1825 South Blvd
 Dallas, TX 75215
 Call before June 4th

- Posters and flyers
 3 hours
 \$20 show-up fee + more
 Confidential
 Voluntary
- Spanish in other neighborhoods
 Separate call line and location

Experimental Procedures

- Experiments
 - Risk**
 - Time**
 - Other games
- Snack break
- Survey



Implementation

- Substantial payoffs
 - max \$260 + \$20 show up fee
 - Average \$60 + \$20 show up fee
- Simple, visual decisions
- Forms on posters, described by experimenter

- Risk
- Time
- Income Pooling

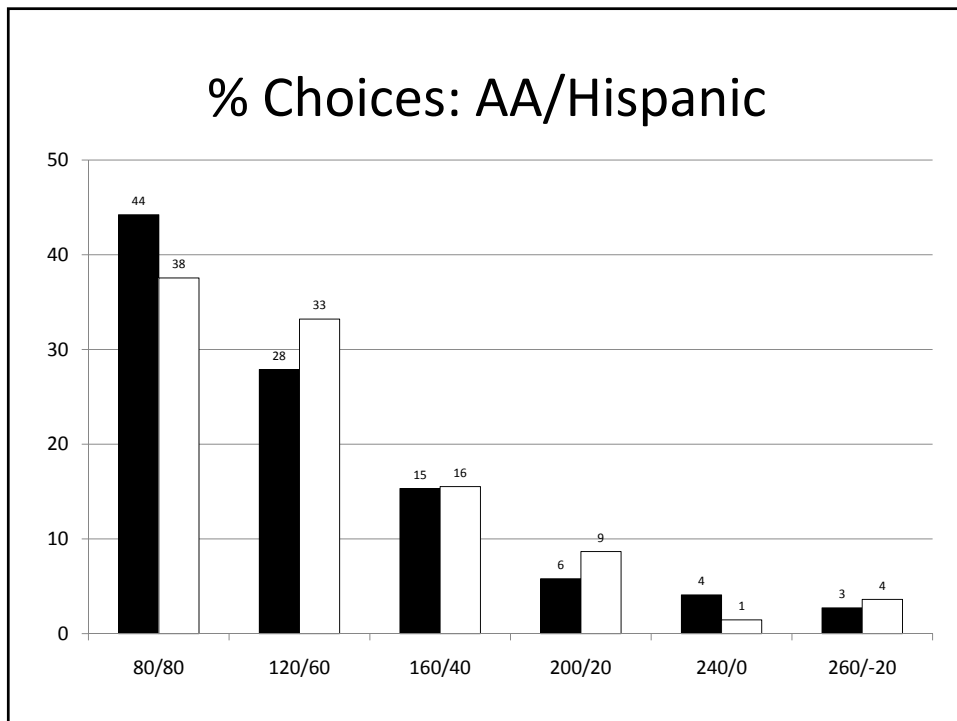
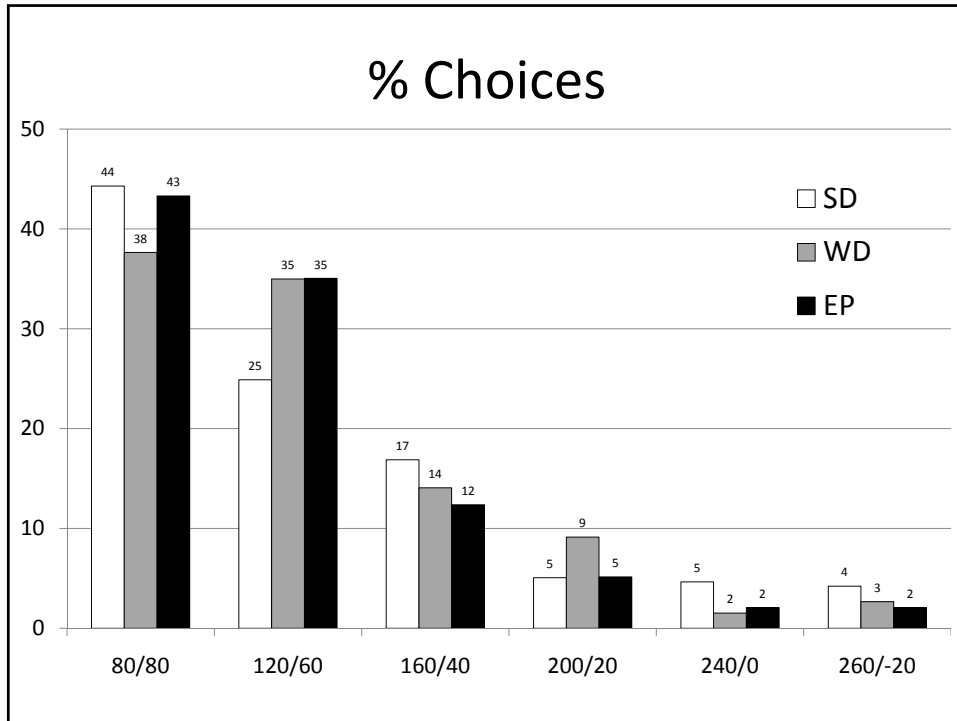
Risk Preferences

- Risk preferences influence many decisions
 - Profession (teachers more risk-averse)
 - Health choices (smoking, risky sexual behaviors, ...)
 - Immigration and migration (risk-averse stay home)
 - Savings and investment (stocks, bonds, ...)
 - Housing choice (rent versus buy, price/quality, ...)
- Identify differences in risk preferences across neighborhoods, ethnicities, ...
 - See what behaviors they predict (not yet)
 - See how they change with public investment (not yet)

Task You Did...For Real Money

Activity 1
Choose One:

- \$20 \$260
 \$80 \$80
 \$0 \$240
 \$60 \$120
 \$20 \$200
 \$40 \$160



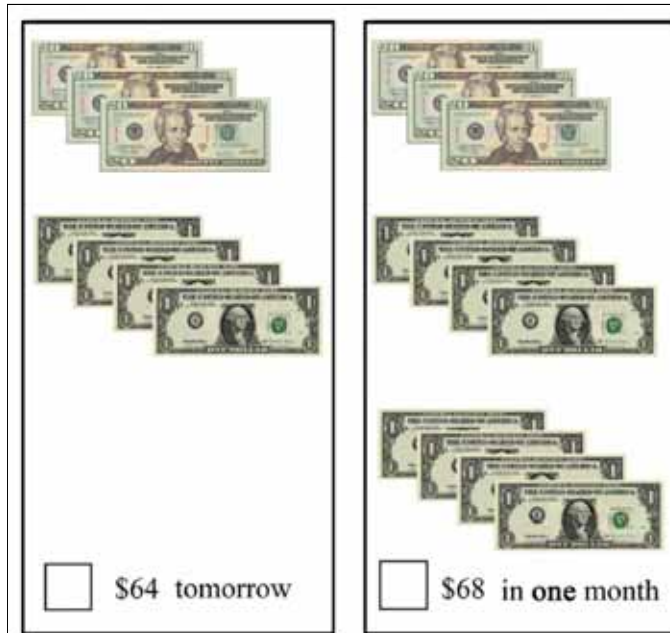
Next Steps with Risk

- Very risk averse
- Correlate to behaviors (what does risk cause)
 - Correlates with self-reported likelihood to
 - invest in mutual funds (0.027)
 - invest in business ventures (0.057)
 - bet at horse races (0.122)
- Examine changes with public investment (what causes risk)
- Consider interventions

Time Preferences

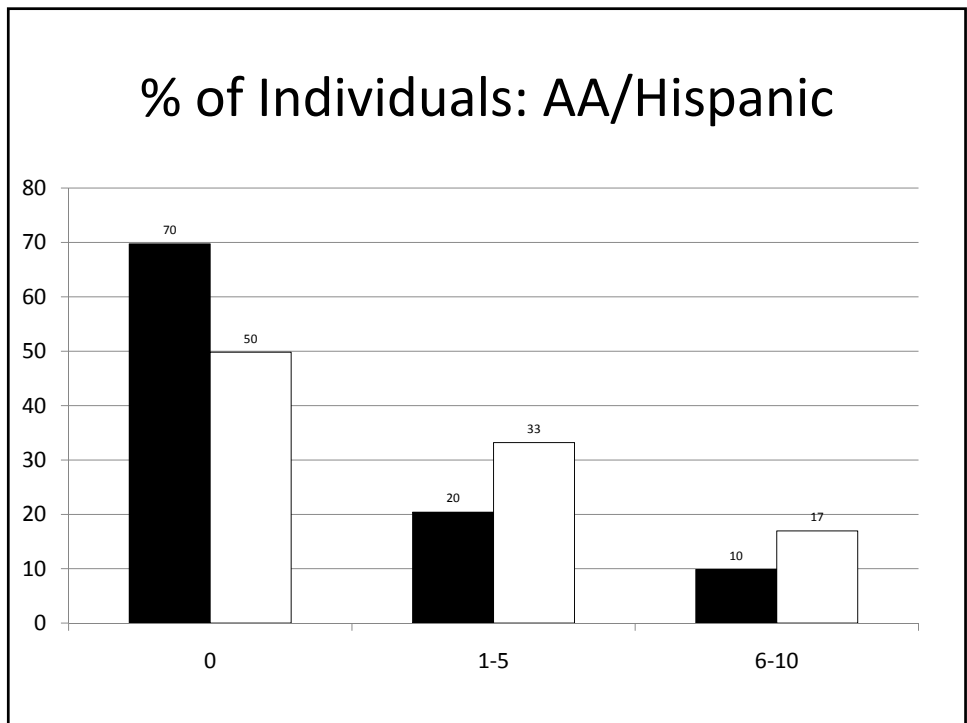
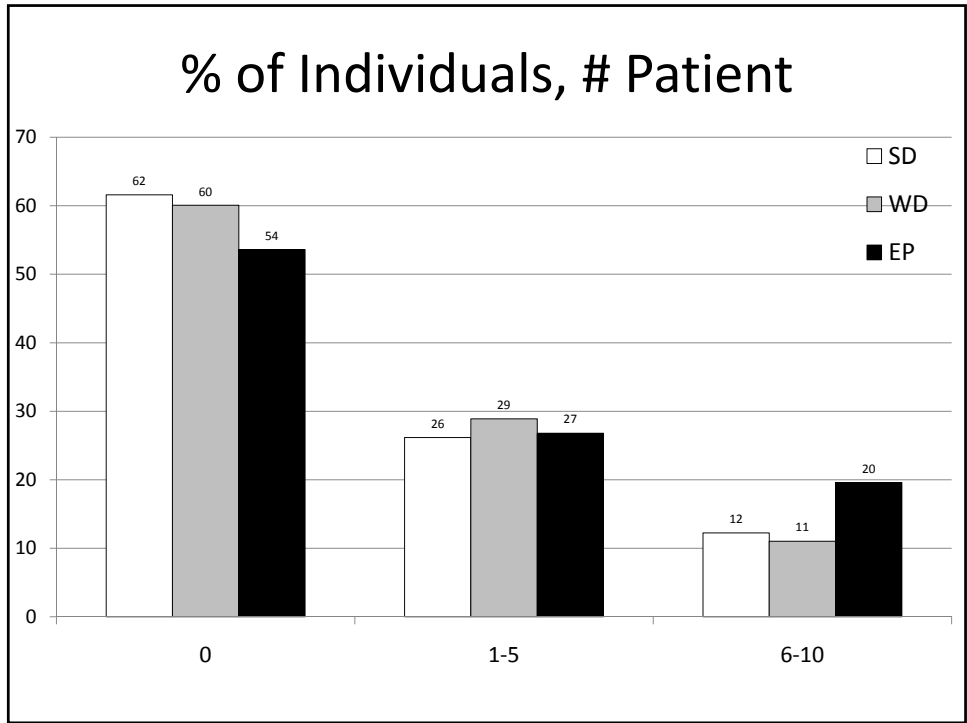
- Time preferences influence many decisions
 - Savings for the future
 - Investment in education (human capital)
 - Health behaviors (dieting, exercise, ...)
- Identify differences in time preferences across neighborhoods, ethnicities, ...
 - See what behaviors they predict (not yet)
 - See how they change with public investment (not yet)

Task You Saw...For Real Money



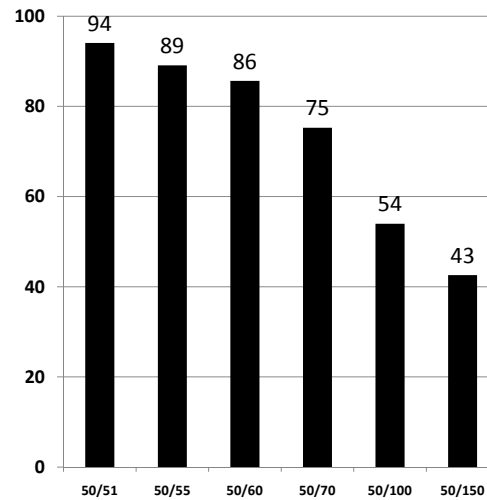
Multiple Choices (Paid One)

- Varied the waiting time
1 month, 5 months
- Varied the annual interest rate (simple)
20%, 40%, 80%, 120%, 160%



Slightly Different Elicitation

- South Dallas Only
- 6 month delay
- (yearly) interest rates of 4%, 20%, 40%, 80%, 200%, 400%
- % immediate choices
- 43% of individuals not willing to save \$50 for 6 months at 400% interest



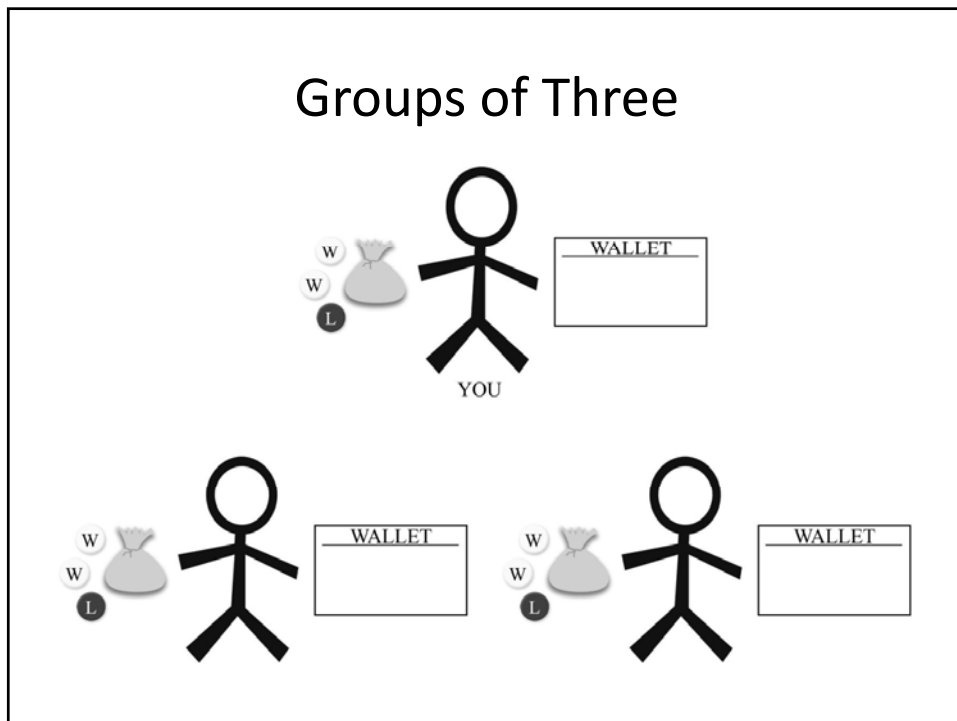
Next Steps with Time

- Huge impatience
- Correlate to behaviors (what does time preference cause)
 - Correlates with self-reported...
 - # credit cards (0.032)
 - # credit cards with balances (0.054)
- Examine changes with public investment (what causes time preference)
- Consider interventions

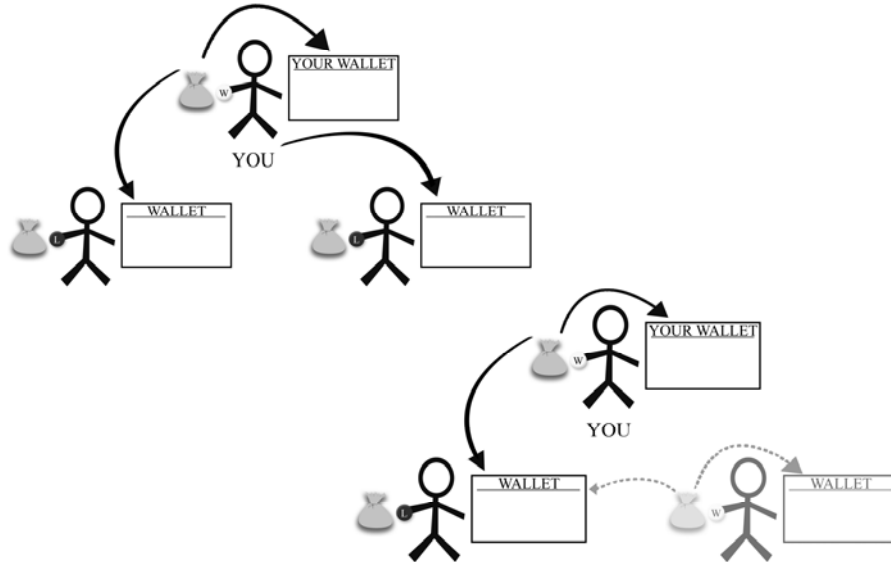
Income Sharing and Investment

- Stories about poverty and lack of savings
Risk pooling / hedging in the community
- Can lead to suboptimal investment
Education, insurance, ...
- Capture this in the lab: Solidarity Game

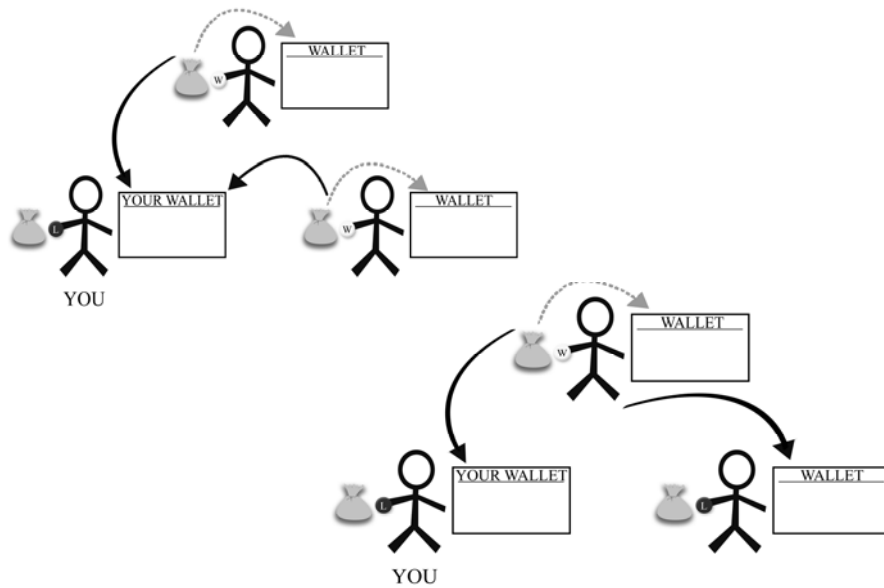
Groups of Three



2/3 chance to win \$75



1/3 chance to lose (win \$0)



Exists Income Sharing

- When they win, participants send 20%-25% of their winnings to others in their group who lost
- When they lose, participants expect to receive 20%-30% of others winnings (little overoptimistic)

Offered Improvement Opportunity

- Insurance
 - Ensure you win (\$75 with 100% chance)
 - E.g. Looking harder for work, ...
 - Pay \$20, expected value is \$25 (1/3 chance of losing)
- Investment
 - When you win, you win \$125 (instead of \$75)
 - E.g. education, ...
 - Pay \$20, expected value is \$33
- Both good deals, but if share, may not take

Offered Improvement Opportunity

- Insurance (69% buy)
 - Ensure you win (\$75 with 100% chance)
 - E.g. Looking harder for work, ...
 - Pay \$20, expected value is \$25 (1/3 chance of losing)
- Investment (19% invest)
 - When you win, you win \$125 (instead of \$75)
 - E.g. education, ...
 - Pay \$20, expected value is \$33
- Both good deals, but if share, may not invest

Who Improves?

- Individuals who send more to others are less likely to purchase insurance
- Individuals who send more to others are less likely to invest

Next Steps with Solidarity

- Individuals income-share; may reduce incentives for self-improvement
- Correlate to behaviors
 - Who improves?
 - What else do they do?
- Examine changes with public investment
- Consider interventions

Summary and Future Work

- Broader research agenda understanding preferences of lower-income individuals
- Short-term: examine relationship between these preferences and financial and other behaviors (e.g. health, education, ...)
- Long-term: examine the impact of economic development and stimulus on changes in those preferences

Thanks!

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+ many South Dallas Community Workers

+ many UT Dallas Research Assistants