



# **Financial Short-term Bias Amelioration in Economically Disadvantaged Individuals**

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## Are the poor irrational?

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- **Cashing paychecks for a fee instead of depositing in a bank account for free**
- **Unsustainable levels of debt**
- **Remaining unbanked**
- ...



## Some explanations

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- **Behavioral economics explanations**
- **Short-term focus**
- **History of exclusion**
- **Community and family networks**



## This sort of decision making has consequences

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- Reductions in net wealth
- Higher accumulated debt
- Vulnerability to volatility in income and asset values

With shrinking safety nets, these consequences can be catastrophic for the poor



## What do we know?

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Humans are impatient

But do we really discount according to  $\delta^t u$  where  $0 \leq \delta \leq 1$ ?

(By the way, most finance is based on that...)

## The empirical evidence suggests otherwise

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- **Sign effect (higher discount rates for gains than losses)**
- **Magnitude effect (higher discount rates for small amounts)**
- **Speedup-delay asymmetry**
- **Improving sequences vs. declining sequences**
- **Present bias or hyperbolic discounting (declining discount rates over time)**
  
- **We focus on present bias or hyperbolic discounting**

$$\delta_t = 1/(1+\alpha t)^{\beta/\alpha}$$



## Reasons for present bias

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- **Willpower and self-regulation. “Something came over me”**
- **Financial knowledge**
- **Mental accounting**



## Evidence of present bias among the poor?

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- Yes
- And more pronounced
- Evidence from Vietnam, India, Philippines and the US

**More pronounced present bias is associated to**

- Borrowing rather than saving
- Borrowing more when they do



## Our research: The questions

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- **Can we find evidence of present bias among the poor?**
- **Can we do something about it?**
  - Written advise
  - Lecture
  - 2x2 experimental design



## Our research: the sample

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**N=85**

**Average age: 47**

**Female: 65%      Male: 35%**

**Average family size: 3.82**

**Median Educational level: Elementary school**

**Median per capita income: \$6,700**

**Without bank accounts: 39%**

**Without credit/debit card: 37%**

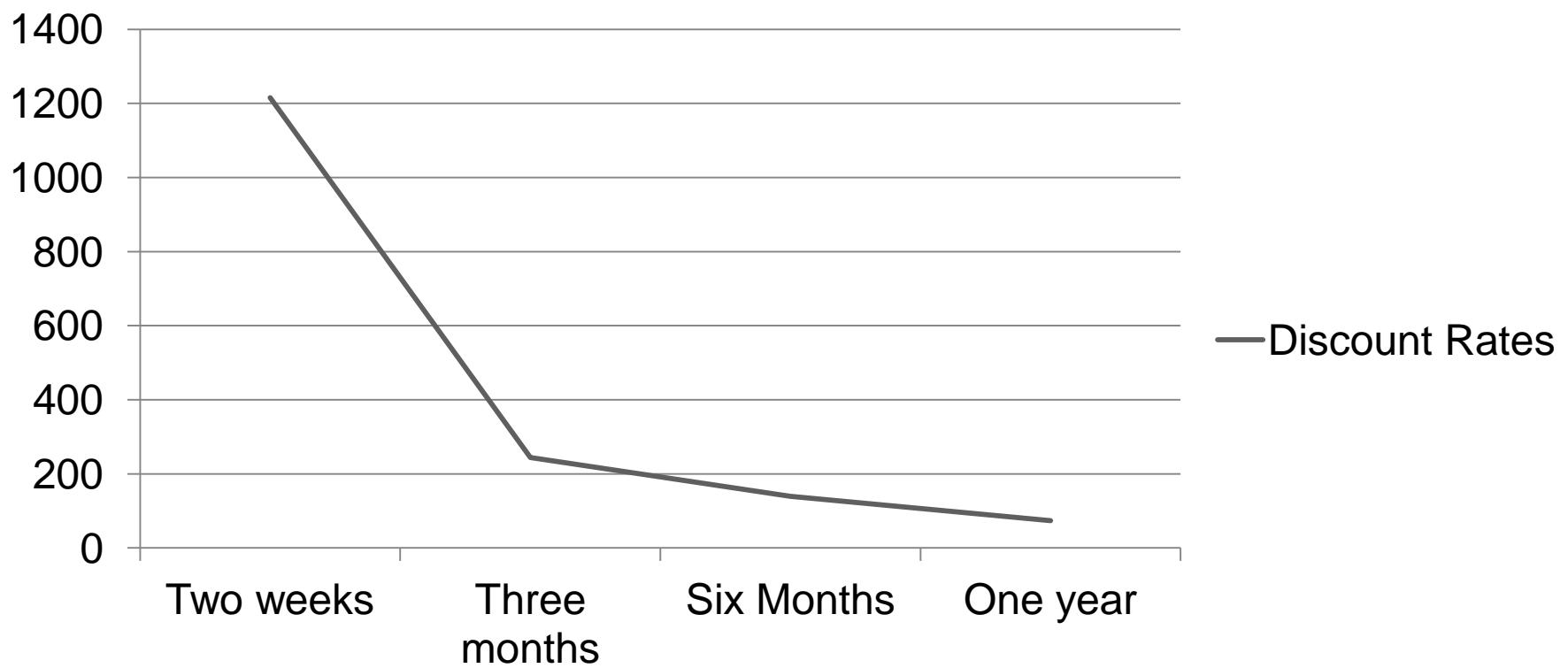
**Spanish speaking: 78%**

**Living or working in Concord, California**

Answers: Present Bias? YES!

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## Discount Rates





# Answers: Can we do something about it? Not what we tried...

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**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1	(Constant)	-1013.499	212.227	-4.776	.000
	Lecture	-192.508	262.460	-.733	.465
	Disclaimer	-83.193	261.140	-.319	.751

a. Dependent Variable: Long delta



## Discussion and Implications

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**Our results are consistent with other empirical evidence:**

Hyperbolic discounting is pervasive among the poor

Written advise seems not to work

Limited educational efforts seem not to work

**Very large variance in our sample**

**Public policy options are limited**

**Future research**

Do more extensive educational efforts work?

Are certain groups more responsive?



# Thanks

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**Bank of the West (\$\$\$)**

**Xunta de Galicia Project # 10 PXIB 100 189 PR (\$\$\$)**

**Catholic Charities of the East Bay (sample selection)**

**And to you**

**Q&A**