Econ 219B
Psychology and Economics: Applications
(Lecture 3)

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Outline

1. Aside: Effect of Financial Education
2. Investment Goods: Health-Club Industry
3. Leisure Goods: Credit Card Industry
4. Leisure Goods: Consumption and Savings I (Life-cycle)
5. Leisure Goods: Consumption and Savings II (Commitments)

1 Aside: Effect of Financial Education

- Studies of the effect of financial education:
  - Cross-Sectional surveys (Bernheim and Garrett, 2003; Bayer, Bernheim, and Scholz, 1996)
    - Sizeable impact
    - BUT: Strong Biases (Reverse Causation + Omitted Vars)
  - Time-series Design (McCarthy and McWhirter 2000; Jacobius 2000)
    - Sizeable impact
    - BUT: Use self-reported desired saving
  - Need for plausible design

- Choi et al. (2005):
  - Financial education class (one hour) in Company D in 2000
  - Participation rate: 17 percent
  - People are asked: "*After attending today's presentation, what, if any, action do you plan on taking toward your personal financial affairs?*"
  - Administrative data on Dec. 1999 (before) and June 2000 (after)
  - Examine effect:
    * participants (self-selected) – 12% of them were not saving before –> Demand for financial education comes from people who already save!
    * non-participants
- Effect likely biased upwards

TABLE 5. Financial Education and Actual vs. Planned Savings Changes (Company C)

	Seminar Attendees		Non-Attendees
Planned Action	Planned Change	Actual Change	Actual Change
Non-participants			
Enroll in 401(k) plan	100%	14%	7%
401(k) participants			
Increase contribution rate	28%	8%	5%
Change fund selection	47%	15%	10%
Change fund allocation	36%	10%	6%

The sample is active 401(k)-eligible employees at company locations that offered financial education seminars from January-June 2000. Actual changes in savings behavior are measured over the period from December 31, 1999 through June 30, 2000. Planned changes are those reported by seminar attendees in an evaluation of the financial education seminars at the conclusion of the seminar. The planned changes from surveys responses of attendees have been scaled to reflect the 401(k) participation rate of seminar attendees.

- Result: Very little impact on changes in savings, compared to non-attendees or to control time period

- Duflo and Saez (2003), *Quarterly Journal of Economics*
  - Target staff in prestigious university (Harvard? MIT?)
  - Randomized Experiment in a university:
    - 1/3 of 330 Departments control group
    - 2/3 of 330 Departments treatment group:
      - 1/2 not-enrolled staff: letter with $20 reward for attending a fair
      - 1/2 not-enrolled staff: no reward
- Measure attendance to the fair and effect on retirement savings

TABLE I
DESCRIPTIVE STATISTICS, BY GROUPS

	Treated departments			
	All (group $D = 1$)	Treated (group $D = 1$, $L = 1$)	Untreated (group $D = 1$, $L = 0$)	Untreated departments (group $D = 0$)
	(1)	(2)	(3)	(4)
PANEL A: BACKGROUND CHARACTERISTICS				
TDA participation before the fair (Sept. 2000)	0.010	0.009	0.011	0.012
	(.0015)	(.0021)	(.0022)	(.0024)
Observations	4168	2039	2129	2043
Sex (fraction male)	0.398	0.400	0.396	0.418
	(.0076)	(.0109)	(.0107)	(.011)
Years of service	5.898	5.864	5.930	6.008
	(.114)	(.161)	(.16)	(.157)
Annual salary	38,547	38,807	38,297	38,213
	(304)	(438)	(422)	(416)
Age	38.3	38.4	38.2	38.7
	(.17)	(.24)	(.24)	(.24)
Observations	4126	2020	2106	2018
PANEL B: FAIR ATTENDANCE (REGISTRATION DATA)				
Fair attendance rate among non-TDA enrollees	0.214	0.280	0.151	0.049
	(.0064)	(.01)	(.0078)	(.0048)
Observations	4126	2020	2106	2018
Fair attendance rate for all staff employees	0.192			0.063
	(.0132)			(.0103)
Observations	6687			3311
PANEL C: TDA PARTICIPATION (ADMINISTRATIVE DATA)				
TDA participation rate after 4.5 months	0.049	0.045	0.053	0.040
	(.0035)	(.0049)	(.0051)	(.0045)
Observations	3726	1832	1894	1861
TDA participation rate after 11 months	0.088	0.089	0.088	0.075
	(.005)	(.0071)	(.007)	(.0065)
Observations	3246	1608	1638	1633

- Summary of effects:
  - Large effect of subsidy on attendance (including peer effect)
  - Small effects of attendance on retirement savings

TABLE II
REDUCED-FORM ESTIMATES (OLS)

	Dependent variable		
		TDA enrollment after	
	Fair attendance (1)	4.5 months (2)	11 months (3)
PANEL A: Average effect of department treatment			
Treated	0.166	0.0093	0.0125
Department dummy D	(.013)	(.0043)	(.0065)
Observations	6144	5587	4879
PANEL B: Effect of letter and department treatment			
Letter dummy L	0.129	−0.0066	0.0005
	(.0226)	(.0061)	(.0102)
Treated	0.102	0.0125	0.0123
Department dummy D	(.0139)	(.0054)	(.0086)
Observations	6144	5587	4879

a. Dependent variables are individual fair participation (column (1)), TDA enrollment 4.5 months and 11 months after the fair (columns (2) and (3)).

- Results:
  - Approximately: Of the people induced to attend the fair, 10% sign up
  - Compare to Default effects: Change allocations for 40%-50% of employees
- Summary:
  - Just explaining retirement savings not very effective at getting people to save
  - Effect of changing default much larger
  - Interesting variation: Re-Do this study *but* give opportunity to sign up at fair

2 Investment Goods: Health-club industry

- DellaVigna, Malmendier, “Paying Not To Go To The Gym”, *American Economic Review*

- Exercise as an investment good

- Present-Bias: Temptation not to attend

Choice of flat-rate vs. per-visit contract

- *Contractual elements:* Per visit fee p, Lump-sum periodic fee L
- *Menu of contracts*
  - Flat-rate contract: $L > 0$, $p = 0$
  - Pay-per-visit contract: $L = 0$, $p > 0$
- *Health club attendance*
  - Immediate cost c_t
  - Delayed health benefit $h > 0$
  - Uncertainty: $c_t \sim G$, c_t i.i.d. $\forall t$.

Attendance decision.

- Long-run plans at time 0:

Attend at $t \Longleftrightarrow \beta\delta^t(-p - c_t + \delta h) > 0 \Longleftrightarrow c_t < \delta h - p.$

- Actual attendance decision at $t \geq 1$:

Attend at $t \Longleftrightarrow -p - c_t + \beta\delta h > 0 \Longleftrightarrow c_t < \beta\delta h - p.$ (Time Incons.)

$$\text{Actual } P(\text{attend}) = G(\beta\delta h - p)$$

- Forecast at $t = 0$ of attendance at $t \geq 1$:

Attend at $t \Longleftrightarrow -p - c_t + \hat{\beta}\delta h > 0 \Longleftrightarrow c_t < \hat{\beta}\delta h - p.$ (Naiveté)

$$\text{Forecasted } P(\text{attend}) = G(\hat{\beta}\delta h - p)$$

Choice of contracts at enrollment

Proposition 1. If an agent chooses the flat-rate contract over the pay-per-visit contract, then

$$\begin{aligned} a(T)\,L \;\leq\; & \quad pTG(\beta\delta h) \\ & + (1-\hat{\beta})\delta bT\left(G(\hat{\beta}\delta h) - G(\hat{\beta}\delta h - p)\right) \\ & + pT\left(G(\hat{\beta}\delta h) - G(\beta\delta h)\right) \end{aligned}$$

Intuition:

1. *Exponentials* ($\beta = \hat{\beta} = 1$) pay at most p per expected visit.

2. *Hyperbolic* agents may pay more than p per visit.

   (a) *Sophisticates* ($\beta = \hat{\beta} < 1$) pay for commitment device ($p = 0$). Align actual and desired attendance.

   (b) *Naïves* ($\beta < \hat{\beta} = 1$) overestimate usage.

- Estimate average attendance and price per attendance in flat-rate contracts

TABLE 3—PRICE PER AVERAGE ATTENDANCE AT ENROLLMENT

	Sample: No subsidy, all clubs		
	Average price per month (1)	Average attendance per month (2)	Average price per average attendance (3)
	Users initially enrolled with a monthly contract		
Month 1	55.23	3.45	16.01
	(0.80)	(0.13)	(0.66)
	N = 829	N = 829	N = 829
Month 2	80.65	5.46	14.76
	(0.45)	(0.19)	(0.52)
	N = 758	N = 758	N = 758
Month 3	70.18	4.89	14.34
	(1.05)	(0.18)	(0.58)
	N = 753	N = 753	N = 753
Month 4	81.79	4.57	17.89
	(0.26)	(0.19)	(0.75)
	N = 728	N = 728	N = 728
Month 5	81.93	4.42	18.53
	(0.25)	(0.19)	(0.80)
	N = 701	N = 701	N = 701
Month 6	81.94	4.32	18.95
	(0.29)	(0.19)	(0.84)
	N = 607	N = 607	N = 607
Months 1 to 6	75.26	4.36	17.27
	(0.27)	(0.14)	(0.54)
	N = 866	N = 866	N = 866
	Users initially enrolled with an annual contract, who joined at least 14 months before the end of sample period		
Year 1	66.32	4.36	15.22
	(0.37)	(0.36)	(1.25)
	N = 145	N = 145	N = 145

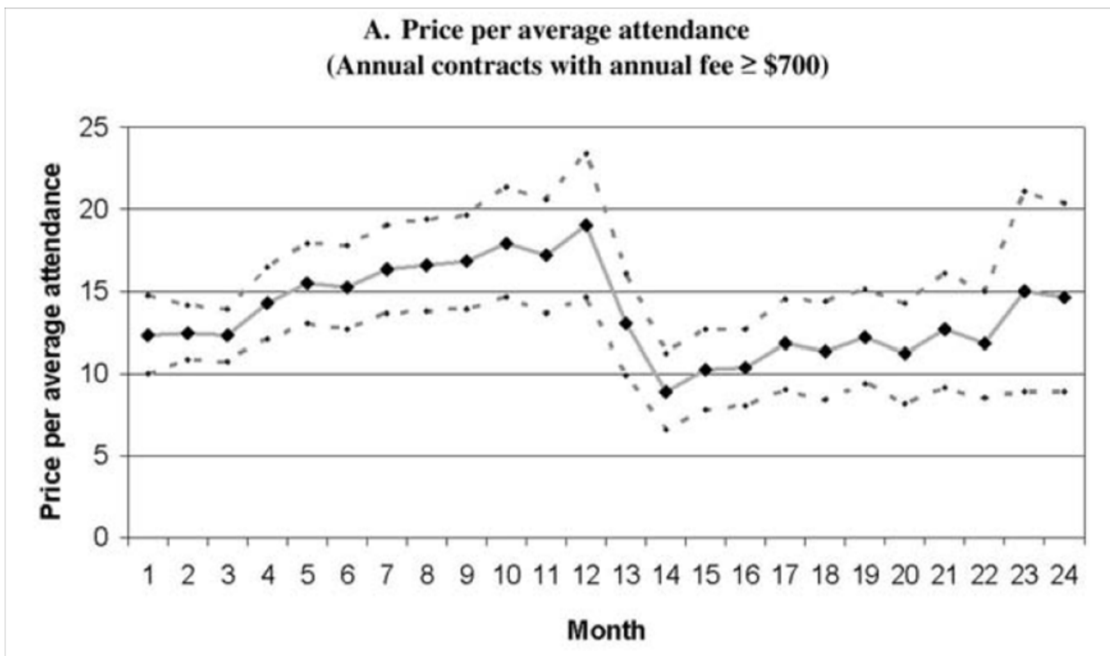
- Result is not due to small number of outliers
- 80 percent of people would be better off in pay-per-visit

TABLE 4—DISTRIBUTION OF ATTENDANCE AND PRICE PER ATTENDANCE AT ENROLLMENT

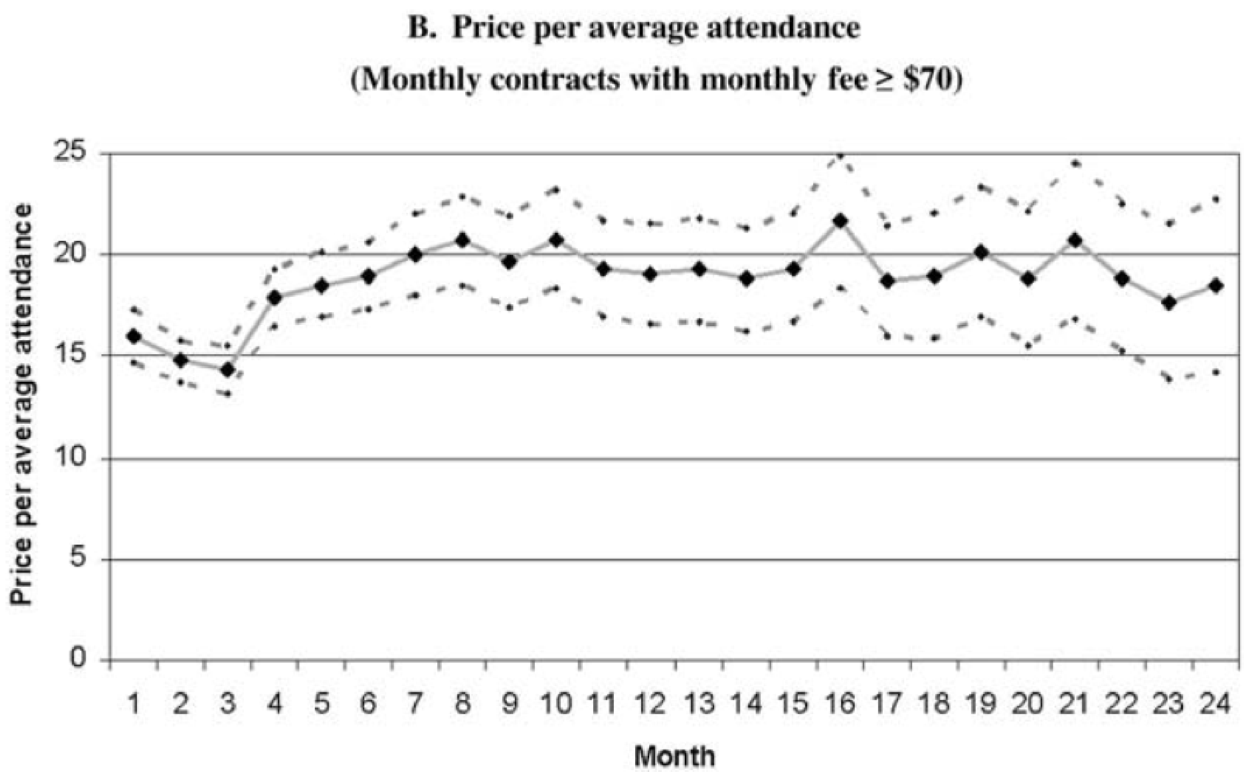
	Sample: No subsidy, all clubs			
	First contract monthly, months 1–6 (monthly fee ≥ $70)		First contract annual, year 1 (annual fee ≥ $700)	
	Average attendance per month (1)	Price per attendance (2)	Average attendance per month (3)	Price per attendance (4)
Distribution of measures				
10th percentile	0.24	7.73	0.20	5.98
20th percentile	0.80	10.18	0.80	8.81
25th percentile	1.19	11.48	1.08	11.27
Median	3.50	21.89	3.46	19.63
75th percentile	6.50	63.75	6.08	63.06
90th percentile	9.72	121.73	10.86	113.85
95th percentile	11.78	201.10	13.16	294.51
	N = 866	N = 866	N = 145	N = 145

Choice of contracts over time

- Choice at enrollment explained by sophistication or naiveté
- And over time? We expect some switching to payment per visit
- **Annual contract.** Switching after 12 months



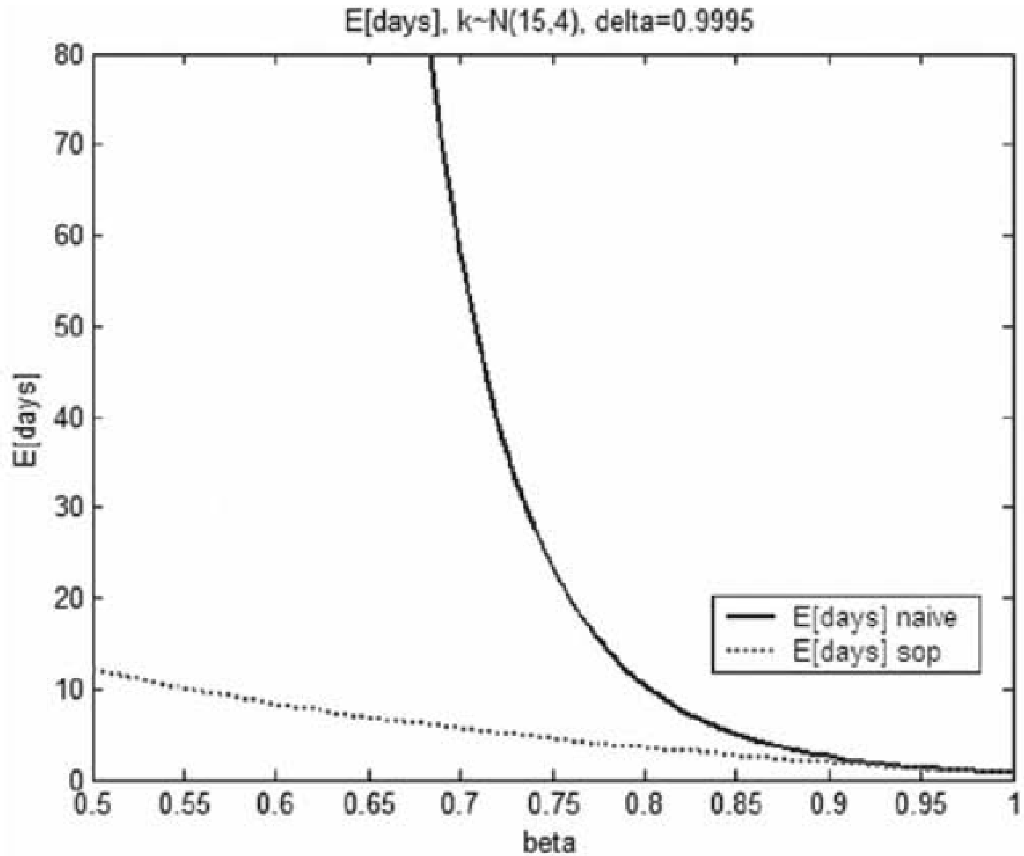
- **Monthly contract.** No evidence of selective switching



- Puzzle. Why the different behavior?

- Simple Explanation – Again the power of defaults
  - Switching out in monthly contract takes active effort
  - Switching out in annual contract is default
- Can model this as we did last time with cost k of effort and benefit b (lower fees)
- In DellaVigna and Malmendier (2006), model with stochastic cost $k\tilde{\ } N(15, 4)$
- Assume $\delta = .9995$ and $b = \$1$ (low attendance – save \$1 per day)
- How may days on average would it take between last attendance and contract termination? Observed: 2.31 months

- Calibration for different β and different types



A. Simulated expected number of days before a monthly member switches to payment per visit
Assumptions: cost *k~N(15,4)*, daily savings *s=1*, and daily discount factor delta = 0.9995. The observed average delay is 2.31 months (70 days) (Finding 4)

- Overall:
  - Present-Biased preferences *with* naiveté organize all the facts
  - Can explain magnitudes, not just qualitative patterns
- Alternative interpretations
  - **Overestimation of future efficiency.**
  - **Selection effect.** People that sign in gyms are already not the worst procrastinators
  - **Bounded rationality**
  - **Persuasion**
  - **Memory**

3 Leisure Goods: Credit card industry

- Ausubel, "Adverse Selection in Credit Card Market"
- Joint-venture company-researcher
- Field Experiment: Randomized mailing of two million solicitations!
- Follow borrowing behavior for 21 months
- Variation of:
  - pre-teaser interest rate r_0: 4.9% to 7.9%
  - post-teaser interest rate r_1: Standard - 4% to Standard $+4\%$
  - Duration of teaser period T_s (measured in years)

- Part of the randomization – Incredible sample sizes. How much would this cost to run? Millions

TABLE 1: SUMMARY OF MARKET EXPERIMENTS

MARKET EXPERIMENT	MARKET CELL	NUMBER OF SOLICITATIONS MAILED	EFFECTIVE RESPONSE RATE	PERCENT GOLD CARDS	AVERAGE CREDIT LIMIT
MKT EXP I	A: 4.9% Intro Rate 6 months	100,000	1.073%	83.97%	$6,446
MKT EXP I	B: 5.9% Intro Rate 6 months	100,000	0.903%	80.18%	$6,207
MKT EXP I	C: 6.9% Intro Rate 6 months	100,000	0.687%	80.06%	$5,973
MKT EXP I	D: 7.9% Intro Rate 6 months	100,000	0.645%	76.74%	$5,827
MKT EXP I	E: 6.9% Intro Rate 9 months	100,000	0.992%	81.15%	$6,279
MKT EXP I	F: 7.9% Intro Rate 12 months	100,000	0.944%	82.31%	$6,296

- Another set of experiments:

MKT EXP III	A: Post-Intro Rate Standard - 4%	100,000	1.015%	82.96%	$5,666
MKT EXP III	B: Post-Intro Rate Standard - 2%	100,000	0.928%	77.69%	$5,346
MKT EXP III	C: Post-Intro Rate Standard + 0%	100,000	0.774%	76.87%	$5,167
MKT EXP III	D: Post-Intro Rate Standard + 2%	100,000	0.756%	76.98%	$5,265
MKT EXP III	E: Post-Intro Rate Standard + 4%	100,000	0.633%	73.62%	$5,095

- Setting:
  - Individual has initial credit card (r_0^0, r_1^0, T_s^0). Balances: b_0 pre-teaser, b_1 post-teaser
  - Credit card offers: (r_0', r_1', T_s')
- Decision to take-up new credit card:
  - switching cost $k > 0$
  - approx. saving in pre-teaser rates (T_s years): $T_s \left(r_0' - r_0^0 \right) b_0$
  - approx. saving in post-teaser rates ($21/12 - T_s$ years): $(21/12 - T_s)\,(r_1^{'} - r_1) b_1$
- Net benefit of switching:

$$NB' = -k + T_s \left(r_0^{'} - r_0^0 \right) b_1 + (21/12 - T_s) \left(r_1^{'} - r_1^0 \right) b_1$$

- Switch if $NB + \varepsilon > 0$
- Take-up rate R is function of attractiveness NB:

$$R = R\left(NB\right),\ R' > 0$$

- Compare take-up rate of card i, R^i, to take-up rate of Standard Card St, R^{St}
  - Standard Card (6.9% followed by 16%) (Card C above)
- Assume R (approximately) linear in a neighborhood of NB^{St}, that is,

$$R\left(NB^i\right) = R\left(NB^{St}\right) + R'_{NB}\left(NB^i - NB^{St}\right)$$

- Compare cards Pre and St that differ only in interest rate r_0 (pre-teaser)
- Assume $b_0^{Pre} = b_0^{St} = b_0$ (Pre-teaser balance) $\approx \$2,000$
- Difference in attractiveness:

$$R\left(NB^{Pre}\right) - R\left(NB^{St}\right) = R'_{NB} T_s \left(r_0^{Pre} - r_0^{St}\right) b_0$$

  - Pre-Teaser Offer (Card A): (4.9% followed by 16%)
    - $NB^{Pre} - NB^{St} \approx 6/12 * 2\% * \$2,000 = \$20$
    - $R\left(NB^{Pre}\right) - R\left(NB^{St}\right) =$ 386 out of 100,000

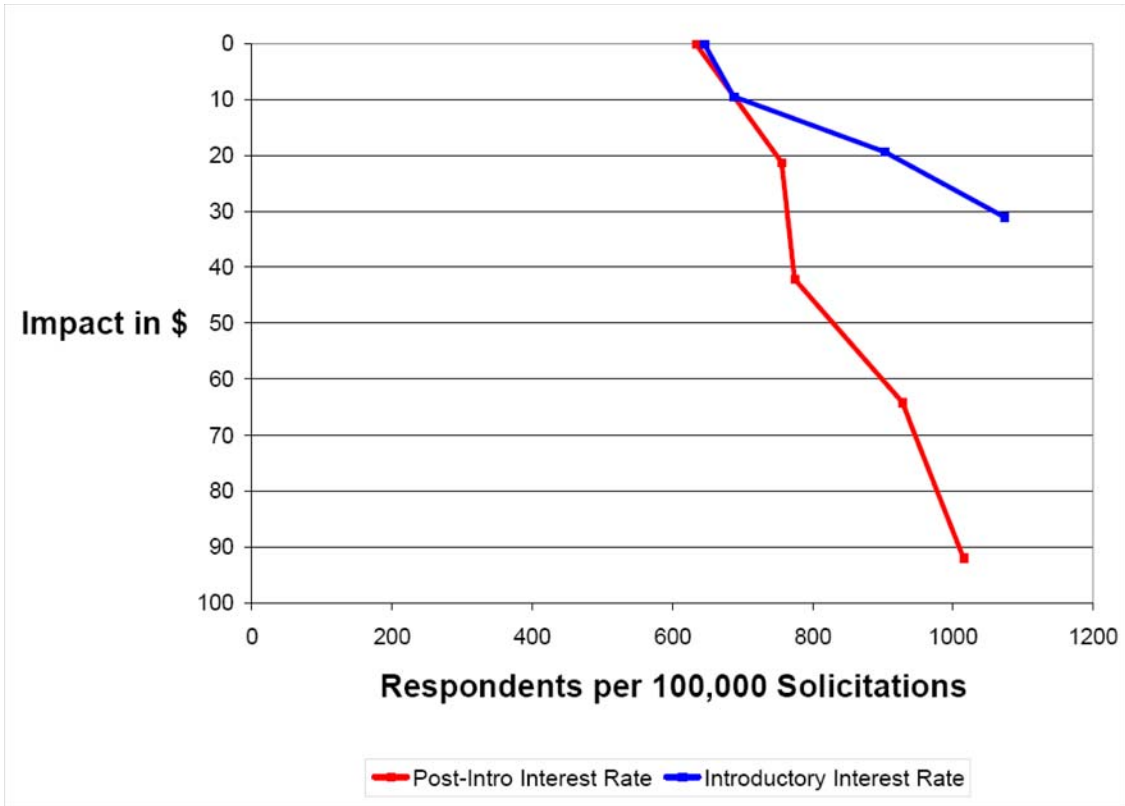
- Compare cards $Post$ and St that differ only in interest rate r_1 (post-teaser)
- Assume $b_1^{Post} = b_1^{St} = b_1$ (Post-teaser balance) $\approx \$1,000$
- Difference in attractiveness:

$$R(NB^{Post}) - R(NB^{St}) = R'_{NB}\,(21/12 - T_s)\left(r_1^{Post} - r_1^{St}\right) b_1$$

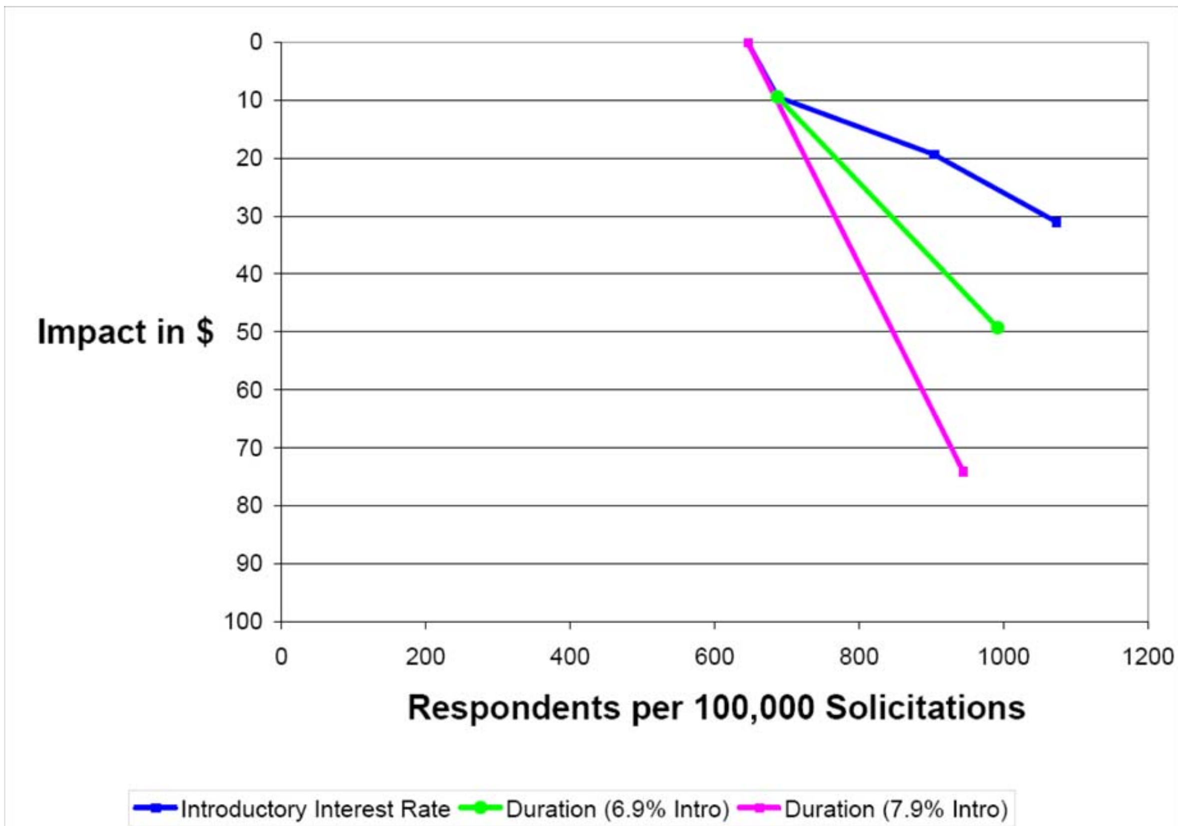
  - Post-Teaser Offer (Card B in Exp. III): (6.9% followed by 14%)
    * $NB^{Post} - NB^{St} \approx 15/12 * 2\% * \$1000 = \$25$
    * $R(NB^{Post}) - R(NB^{St}) = 154$ out of 100,000
- Puzzle:
  - $NB^{Post} - NB^{St} > NB^{Pre} - NB^{St}$
  - But $R(NB^{Pre}) - R(NB^{St}) >> R(NB^{Post}) - R(NB^{St})$

- Plot NB and $R(NB)$ for different offers

- Figure 1. Compare offers varying in r_0 (flat line) and in r_1 (steep line)



- Very different slope!
- Figure 2. Vary length of teaser period. Similar findings.



- **Figure 1**. People underrespond to post-teaser interest rate.
- Why?
  - truncation at 21 months?
  - (very) high impatience?
  - sophistication?
  - most plausible: naiveté

- Naive time-inconsistent preferences

- Naives overestimate switching to another card (procrastination)

- Naives underestimate post-teaser borrowing: $\hat{b}_1 < b_1$ and $\hat{b}_0 = b_0$

- Compare cards:

$$NB^{Pre} - NB^{St} = T_s \left(r_0^{Pre} - r_0^{St} \right) b_0$$

  and

$$\widehat{NB}^{Post} - \widehat{NB}^{St} = (21/12 - T_s) \left(r_1^{Post} - r_1^{St} \right) \hat{b}_1$$

- Underestimate impact of post-teaser interest rates

- Calibration: $\hat{b}_1 \approx (1/3)\, b_1$

- **Figure 2. Variation in** T_s. People underrespond to length of teaser period

- Why?

- Naive agent overestimates probability of switching to another teaser offer

4 Leisure Goods: Consumption and Savings

- Laibson (1997) to Laibson, Repetto, and Tobacman (20057)
- Leisure Good: Temptation to overconsume at present
- Stylized facts:
  - Low liquid wealth accumulation
  - Extensive credit card borrowing (SCF, Fed, Gross and Souleles 2000)
  - Consumption-income excess comovement (Hall and Mishkin, 1982)
  - Substantial illiquid wealth (housing+401(k)s)

TABLE 1

SECOND-STAGE MOMENTS

Description and Name	$\overline{m}_{J_m}$	se($\overline{m}_{J_m}$)
% Borrowing on Visa: *"% Visa"*	0.678	0.015
Mean (Borrowing$_t$ / mean(Income$_t$)): *"mean Visa"*	0.117	0.009
Consumption-Income Comovement: *"CY"*	0.231	0.112
Average weighted $\frac{wealth}{income}$: *"wealth"*	2.60	0.13

Source: Authors' calculations based on data from the Survey of Consumer Finances, the Federal Reserve, and the Panel Study on Income Dynamics. Calculations pertain to households with heads who have high school diplomas but not college degrees. The variables are defined as follows: *% Visa* is the fraction of U.S. households borrowing and paying interest on credit cards (SCF 1995 and 1998); *mean Visa* is the average amount of credit card debt as a fraction of the mean income for the age group (SCF 1995 and 1998, weighted by Fed aggregates); *CY* is the marginal propensity to consume out of anticipated changes in income (PSID 1978-92); and *wealth* is the weighted average wealth-to-income ratio for households with heads aged 50-59 (SCF 1983-1998).

- Reduced-form evidence here not sufficient
- Life-cycle consumption model (Gourinchas and Parker, 2004)
- Assume realistic features:
  - borrowing constraints
  - illiquid assets
  - bequests...

- Two steps of estimation: of MSM (Method of Simulated Moments)

  1. Estimate ('calibrate') auxiliary parameters
     - Interest rate
     - Mortality
     - Income shocks
  2. Estimate main parameters (β, δ) using Method of Simulated Moments
     - * Simulate model (cannot solve analytically)
       * Choose parameters $(\hat{\beta}, \hat{\delta})$ that minimize distance of simulated moments to estimated moments
       * Take into account uncertainty in estimates of 1st stage

- (David Laibson's Slides follow)

3.1 Demographics

- Mortality, Retirement (PSID), Dependents (PSID), HS educational group

3.2 Income from transfers and wages

- $Y_t =$ after-tax labor and bequest income plus govt transfers (assumed exog., calibrated from PSID)

- $y_t \equiv \ln(Y_t)$. During working life:

$$y_t = f^W(t) + u_t + \nu_t^W \tag{3}$$

- During retirement:

$$y_t = f^R(t) + \nu_t^R \tag{4}$$

3.3 Liquid assets and non-collateralized debt

- $X_t + Y_t$ represents liquid asset holdings at the beginning of period t.

- Credit limit: $X_t \geq -\lambda \cdot \bar{Y}_t$

- $\lambda = .30$, so average credit limit is approximately $8,000 (SCF).

3.4 Illiquid assets

- Z_t represents illiquid asset holdings at age t.

- Z bounded below by zero.

- Z generates consumption flows each period of γZ.

- Conceive of Z as having some of the properties of home equity.

- Disallow withdrawals from Z; Z is perfectly illiquid.

- Z stylized to preserve computational tractability.

3.5 Dynamics

- Let I_t^X and I_t^Z represent net investment into assets X and Z during period t

- Dynamic budget constraints:

$$\begin{aligned} X_{t+1} &= R^X \cdot (X_t + I_t^X) \\ Z_{t+1} &= R^Z \cdot (Z_t + I_t^Z) \\ C_t &= Y_t - I_t^X - I_t^Z \end{aligned}$$

- Interest rates:

$$R^X = \begin{cases} R^{CC} & \text{if } X_t + I_t^X < 0 \\ R & \text{if } X_t + I_t^X > 0 \end{cases} ; \qquad R^Z = 1$$

- Three assumptions for $\left[R^X, \gamma, R^{CC}\right]$:

Benchmark:	[1.0375, 0.05, 1.1175]
Aggressive:	[1.03, 0.06, 1.10]
Very Aggressive:	[1.02, 0.07, 1.09]

In full detail, self t has instantaneous payoff function

$$u(C_t, Z_t, n_t) = n_t \cdot \frac{\left(\frac{C_t + \gamma Z_t}{n_t}\right)^{1-\rho} - 1}{1-\rho}$$

and continuation payoffs given by:

$$\beta \sum_{i=1}^{T+N-t} \delta^i \left(\Pi_{j=1}^{i-1} s_{t+j}\right)(s_{t+i}) \cdot u(C_{t+i}, Z_{t+i}, n_{t+i}) ...$$
$$+\beta \sum_{i=1}^{T+N-t} \delta^i \left(\Pi_{j=1}^{i-1} s_{t+j}\right)(1 - s_{t+i}) \cdot B(X_{t+i}, Z_{t+i})$$

- n_t is effective household size: adults+(.4)(kids)
- γZ_t represents real after-tax net consumption flow
- s_{t+1} is survival probability
- $B(\cdot)$ represents the payoff in the death state

3.7 Computation

- Dynamic problem:

$$\max_{I_t^X, I_t^Z} \quad u(C_t, Z_t, n_t) + \beta\delta E_t V_{t,t+1}(\Lambda_{t+1})$$
$$s.t. \text{ Budget constraints}$$

- $\Lambda_t = (X_t + Y_t, Z_t, u_t)$ (state variables)

- Functional Equation:

$$V_{t-1,t}(\Lambda_t) =$$
$$\{s_t[u(C_t, Z_t, n_t) + \delta E_t V_{t,t+1}(\Lambda_{t+1})] + (1 - s_t) E_t B(\Lambda_t)\}$$

- Solve for eq strategies using backwards induction

- Simulate behavior

- Calculate descriptive moments of consumer behavior

4 Estimation

Estimate parameter vector θ and evaluate models wrt data.

- $m_e =$ N empirical moments, VCV matrix $= \Omega$
- $m_s(\theta) =$ analogous simulated moments
- $q(\theta) \equiv (m_s(\theta) - m_e)\,\Omega^{-1}\,(m_s(\theta) - m_e)'$, a scalar-valued loss function
- Minimize loss function: $\hat{\theta} = \arg\min_{\theta} q(\theta)$
- $\hat{\theta}$ is the MSM estimator.
- Pakes and Pollard (1989) prove asymptotic consistency and normality.
- Specification tests: $q(\hat{\theta}) \sim \chi^2(N - \#parameters)$

TABLE 3

BENCHMARK STRUCTURAL ESTIMATION RESULTS

	(1) Hyperbolic	(2) Exponential	(3) Hyperbolic Optimal Wts	(4) Exponential Optimal Wts	(5) Data
Parameter estimates $\hat{\theta}$					
$\hat{\beta}$	0.7031	1.0000	0.7150	1.0000	-
s.e. (i)	(0.1093)	-	(0.0948)	-	-
s.e. (ii)	(0.1090)	-	-	-	-
s.e. (iii)	(0.0170)	-	-	-	-
s.e. (iv)	(0.0150)	-	-	-	-
$\hat{\delta}$	0.9580	0.8459	0.9603	0.9419	-
s.e. (i)	(0.0068)	(0.0249)	(0.0081)	(0.0132)	-
s.e. (ii)	(0.0068)	(0.0247)	-	-	-
s.e. (iii)	(0.0010)	(0.0062)	-	-	-
s.e. (iv)	(0.0009)	(0.0056)	-	-	-
Second-stage moments					
% Visa	0.634	0.669	0.613	0.284	0.678
mean Visa	0.167	0.150	0.159	0.049	0.117
CY	0.314	0.293	0.269	0.074	0.231
wealth	2.69	-0.05	3.22	2.81	2.60
Goodness-of-fit					
$q(\hat{\theta},\hat{\chi})$	67.2	436	2.48	34.4	-
$\xi(\hat{\theta},\hat{\chi})$	3.01	217	8.91	258.7	-
p-value	0.222	$<$1e-10	0.0116	$<$2e-7	-

Source: Authors' calculations.

Note on standard errors: (i) includes both the first stage correction and the simulation correction, (ii) includes just the first stage correction, (iii) includes just the simulation correction, and (iv) includes neither correction.

TABLE 4

ROBUSTNESS

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Benchmark	$\gamma = 3.38\%$	$\gamma = 6.59\%$	$r^{CC} = 10\%$	$r^{CC} = 13\%$	$\rho = 1$	$\rho = 3$
Hyperbolic							
Parameter Estimates $\hat{\theta}$							
$\hat{\beta}$	0.7031	0.5071	0.8024	0.7235	0.6732	0.8186	0.5776
s.e. (i)	(0.1093)	(0.0441)	(0.0614)	(0.1053)	(0.1167)	(0.0959)	(0.1339)
$\hat{\delta}$	0.9580	0.9731	0.9425	0.9567	0.9595	0.9610	0.9545
s.e. (i)	(0.0068)	(0.0188)	(0.0093)	(0.0071)	(0.0045)	(0.0037)	(0.0096)
Goodness-of-fit							
$q(\hat{\theta}, \hat{\chi})$	67.2	108.4	49.7	64.1	70.7	63.0	67.7
$\xi(\hat{\theta}, \hat{\chi})$	3.01	16.79	5.27	12.09	10.97	7.97	1.85
p-value	0.222	0.0002	0.0717	0.0024	0.0041	0.0186	0.3965
Exponential							
Parameter Estimates $\hat{\theta}$							
$\hat{\beta}$	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
s.e. (i)	-	-	-	-	-	-	-
$\hat{\delta}$	0.8459	0.8459	0.8459	0.8520	0.8354	0.8924	0.7841
s.e. (i)	(0.0249)	(0.0249)	(0.0250)	(0.0267)	(0.0262)	(0.0204)	(0.0357)
Goodness-of-fit							
$q(\hat{\theta}, \hat{\chi})$	435.6	435.6	435.6	434.7	436.6	438.1	435.5
$\xi(\hat{\theta}, \hat{\chi})$	217	217	263	177	339	349	310
p-value	<1e-10	<1e-10	<1e-10	<1e-10	<1e-10	<1e-10	<1e-10

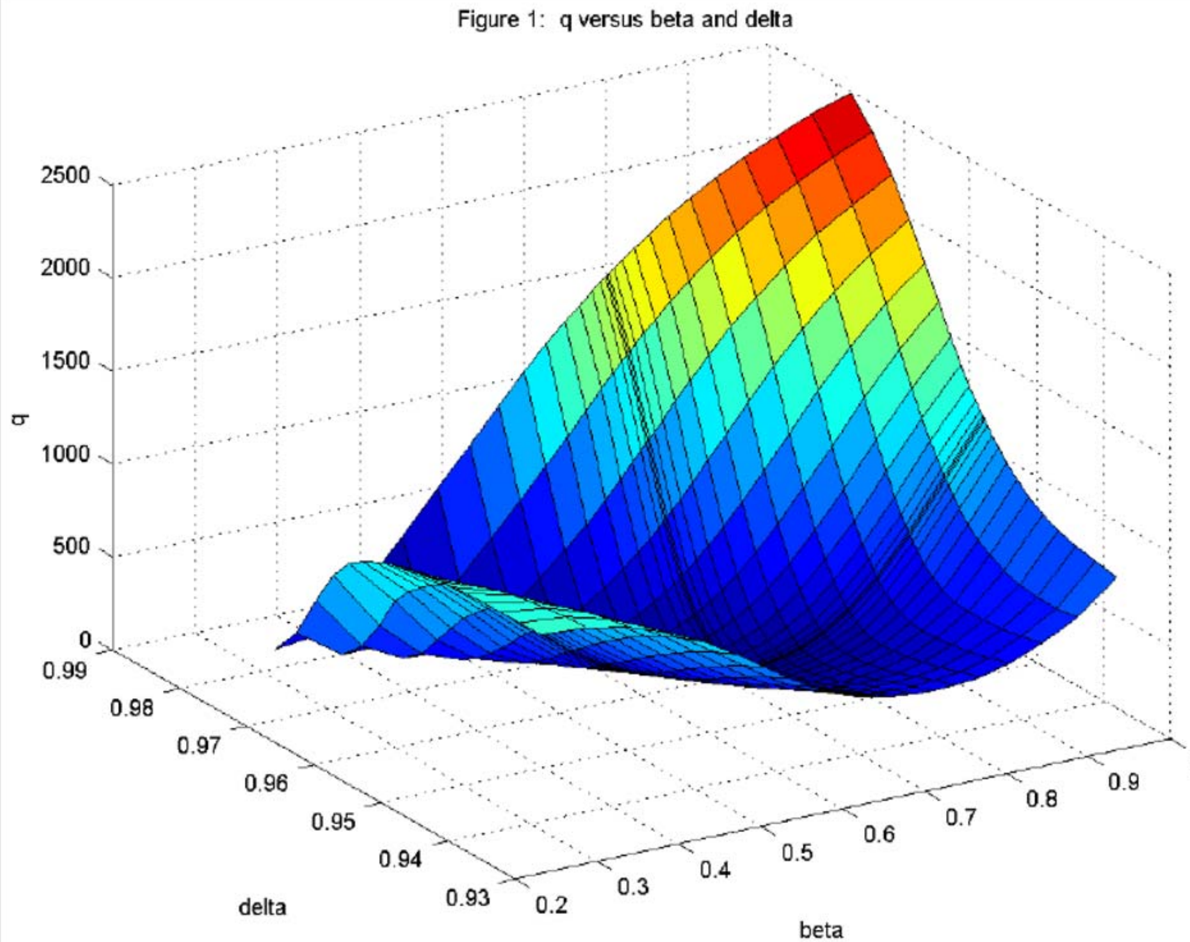


Figure 1: This figure plots the MSM objective function with respect to beta and delta under the paper's benchmark assumptions. The objective, q, equals a weighted sum of squared deviations of the empirical moments from the moments predicted by the model. Lower values of q represent a better fit of the model, and the (beta,delta) pair that minimizes q is the MSM estimator.

5 Leisure Goods: Commitments and Savings

- Ashraf, Karlan, and Yin (2005), *Quarterly Journal of Economics*
  - Different Methodology: Field Experiment
  - Different Setting: Philippines

- Three treatments:
  - SEED Treatment (N=842): Encourage to save, Offer commitment device (account with savings goal)
  - Marketing Treatment (N=466): Encourage to save, Offer no commitment
  - Control Treatment (N=469)

- Evaluation:
  - Compare SEED to Marketing Treatment: Effect of Commitment Device in addition to encouragement
  - Measure the effect on total savings (also on non-committed account) – This was not true in 401(k) studies
- SEED Treatment:
  - Out of 842 treated people, 202 take up SEED
  - 167 also got lock-up box (did not observe savings there)

- Effect of SEED Treatment on Total Savings, Compared to Marketing
  - (Remember: Include all 842 people, Intent-to-Treat)
  - *Share of people with increased Balances*: 5.6 percentage (33.3 percent in SEED and 27.7 in Marketing)
  - *Share of people with increased Balances by at least 20 percent*: 6.4 percentage points
  - *Total Balances*: 287 Pesos after 6 months (not significant)
- To compute Treatment-on-The-Treated, divide by 202/842
  - Take into account no effect on non-takers (by assumption)

TABLE VI
Impact on Change in Savings Held at Bank
OLS, Probit

INTENT TO TREAT EFFECT								
	OLS				Probit			
Length	6 months		12 months		12 months			
Dependent Variable:	Change in Total Balance	Change in Total Balance	Change in Total Balance	Change in Total Balance	Binary Outcome = 1 if Change in Balance > 0%	Binary Outcome = 1 if Change in Balance > 0%	Binary Outcome = 1 if Change in Balance > 20%	Binary Outcome = 1 if Change in Balance > 20%
Sample	All	Commitment & Marketing Only	All	Commitment & Marketing Only	All	Commitment & Marketing Only	All	Commitment & Marketing Only
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Commitment Treatment	234.678*	49.828	411.466*	287.575	0.102***	0.056**	0.101***	0.064***
	(101.748)	(156.027)	(244.021)	(228.523)	(3.82)	(0.026)	(0.022)	(0.021)
Marketing Treatment	184.851		123.891		0.048		0.041	
	(146.982)		(153.440)		(1.56)		(0.027)	
Constant	40.626	225.476*	65.183	189.074**				
	(61.676)	(133.405)	(124.215)	(90.072)				
Observations	1777	1308	1777	1308	1777	1308	1777	1308
R-squared	0.00	0.00	0.00	0.00				

Robust standard errors in parentheses. * significant at 10%; ** significant at 5%; *** significant at 1%. The dependent variable in the first two column is the change in total savings held at the Green Bank after six months. Column (1) regresses chnage in total savings balances on indicators for assignment in the commitment- and marketing-treatment groups. The omitted group indicator in this regression corresponds to the control group. Column (2) shows the regression restricting the sample to commitment- and marketing-treatment groups. Columns (3) and (4) repeat this regression, using change in savings balances after 12 months as a dependent variable. The dependent variable in columns (5)-(8) is a binary variable equal to 1 if balances increased by x%. 154 clients had pre-intervention a savings balance equal to zero. 24 of them had positive savings after 12 months. These individuals were coded as "one," and those that remain at zero were coded as zero for the outcome variables for columns (5) through (8). Exchange rate is 50 pesos for US $1.00.

- In addition, examine correlation with a survey response to hyperbolic-discounting-type question:
  - Preference between 200 Pesos now and in 1 month
  - Preference between 200 Pesos in 6 months and in 7 months

TABLE III

Tabulations of Responses to Hypothetical Time Preference Questions

			Indifferent between 200 pesos in 6 months and X in 7 months			
			Patient X<250	Somewhat Impatient 250<X<300	Most Impatient 300<X	Total
Indifferent between 200 pesos now and X in one month	Patient	X<250	**606** **34.4%**	**126** **7.2%**	**73** **4.1%**	**805** **45.7%**
	Somewhat Impatient	250<X<300	**206** **11.7%**	**146** **8.3%**	**59** **3.3%**	**411** **23.3%**
	Most Impatient	300<X	**154** **8.7%**	**93** **5.3%**	**299** **17%**	**546** **31%**
	Total		**966** **54.8%**	**365** **20.7%**	**431** **24.5%**	**1,762** **100%**

"Hyperbolic": More patient over future tradeoffs than current tradeoffs

"Patient Now, Impatient Later": Less patient over future tradeoffs than current tradeoffs.

Time inconsistent (direction of inconsistency depends on answer to open-ended question).

- On average, evidence on hyperbolic-discounting-type preferences
- Interesting idea: Correlate survey response with response to treatment (also in Fehr-Goette paper next lecture)
- Evidence of correlation for women, not for men

TABLE V
Determinants of SEED Takeup
Probit

	(1) All	(2) All	(3) Female	(4) Male
Time inconsistent	0.125*	0.005	0.158*	0.046
	(0.067)	(0.080)	(0.085)	(0.098)
Impatient, Now versus 1 Month	-0.030	-0.039	-0.036	-0.041
	(0.050)	(0.050)	(0.062)	(0.075)
Patient, Now versus 1 Month	0.076	0.070	0.035	0.119
	(0.072)	(0.072)	(0.089)	(0.110)
Impatient, 6 months versus 7 Months	0.097	0.108*	0.124	0.078
	(0.065)	(0.065)	(0.087)	(0.091)
Patient, 6 months versus 7 Months	0.015	0.022	0.057	-0.021
	(0.064)	(0.064)	(0.081)	(0.093)

6 Next Lecture

- Finish Discussion of Present Bias
  - Investment Good: Seed Adoption
  - A brief overview of the rest of the literature
  - Methodological Errors in Applying Present-Biased Preferences
- Reference-Dependence Preferences
  - Introduction
  - Endowment Effect: Basics
  - Endowment Effect: Experience