

Success in Financial Behavioral Change

Mary Zaki, PhD

Assistant Professor and Extension Specialist
Department of Agricultural and Resource Economics
University of Maryland, College Park



Techniques Economists Find Encourage Financial Behavioral Change

- Rules of Thumb
- Experiencing Small Victories
- Diminishing the Pain and Strengthening the Gain
- Giving Reminders
- Nudges and Commitment Devices

Techniques Economists Find Encourage Financial Behavioral Change

- **Rules of Thumb**
- **Experiencing Small Victories**
- **Diminishing the Pain and Strengthening the Gain**
- Giving Reminders
- Nudges and Commitment Devices

Rules of Thumb

- Experiment:
 - Small Business Owners in Dominican Republic
 - Standard Accounting Training: record keeping, accounts receivables, accounts payable...
 - Rules-of-Thumb Training: separating business and personal accounts (literally), estimating profits from changes of cash on hand, paying oneself a fixed salary.
 - Outcomes:
 - Rules-of-Thumb: Followed better business practices, more accurately calculated profit, fared better during bad sales periods and had a higher probability of having positive savings.
 - Standard Accounting: Not significantly different from control
- Moral of the Story: KEEP IT SIMPLE!

Small Victories

- “Debt Snowball”
- Experiment:
 - Subjects given task to retype lists of string in MS Excel.
 - Task was framed in ascending, descending or constant lengths of lists.
 - Outcomes:
 - Subjects given the ascending list finished 13% faster than those given the descending lists.
 - When given the option between the three styles of the task, people choose ascending the *least*.
- Moral of the Story: It might be easier to motivate by setting goals in ascending order of size or difficulty (WARNING: Beware of the costs associated with this!)

No Pain, but Gain

- Experiment:
 - Students asked how much they are willing to pay for a given school mug
 - Half the students were randomly given mugs
 - Then the students were allowed to trade for the mugs for cash in a game.
 - Outcome: Students who were given the mugs were less likely to give up the mugs even if they initially didn't value them highly.
- “Loss Aversion”-People are more averse to losing things than they are to gaining them.
- Making gains from savings more tangible:
 - Name accounts for intended use, like “health,” “education,” “rent utilities.”
- Moral of the Story: When framing your lessons, make gains tangible and near.

Summary

- Rules of Thumb/Keep it Simple
- Motivate small early victories
- Make future gain more tangible

References

Alexander Brown and Joanna Lahey, “Small Victories: Creating Intrinsic Motivation in Savings and Debt Reduction,” NBER Working Paper 20125, 2015.

Alejandro Drexler, Greg Fischer and Antoinette Schoar, “Keeping it Simple: Financial Literacy and Rules of Thumb,” Working Paper, 2013.

Daniel Kahneman, Jack Knetsch, and Richard Thaler, “Experimental Tests of the Endowment Effect and the Coase Theorem,” Journal of Political Economy, 1990.

Dean Karlan, “Helping the Poor Save More,” Stanford Social Investment Review, January 2010.