An Urgency Effect in Responses to Future Rate Increases

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We investigate people’s willingness to repay their debt when the interest rate changes. We found that people decide to repay their debt faster when they know the interest rate will increase in the future than when they know the rate is already at a high level.

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Understanding and Overcoming Financial Challenges: Process Insights, Pitfalls, and Recommendations

Chairs: Rachel Meng, Columbia University, USA
Eesha Sharma, Dartmouth College, USA

Paper #1: Poverty as Helplessness: How Loss of Control Affects Impulsivity and Risk-Taking
Ayelet Gneezy, University of California San Diego, USA
Alex Imas, Carnegie Mellon University, USA

Paper #2: Thinking About Financial Deprivation: Rumination and Decision Making Among the Poor
Gita Johar, Columbia University, USA
Rachel Meng, Columbia University, USA
Keith Wilcox, Columbia University, USA

Paper #3: An Urgency Effect in Responses to Future Rate Increases
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SESSION OVERVIEW
People routinely face financial challenges that may impede their financial and overall well-being. For example, chronic and situational financial deprivation can result in costly errors involving consequential decisions: when to repay debts, whether to borrow, and how much to save. While much research has explored such pitfalls, relatively less well-understood are the psychological mechanisms associated with these obstacles and how people aim to overcome them. To this end, this session explores causes and consequences of economic challenges such as feeling poor and bearing the burden of debt repayment. The featured papers impart insights into the psychological and behavioral consequences of experiencing financial challenges and suggest some recommendations for combating them. In particular, attention is focused on uncovering process evidence underlying the relationship between financial constraints and suboptimal behavior (Papers 1 and 2) as well as the routes people take in the face of environmental obstacles (Paper 3).

The session opens with a discussion of potential causes of impaired decision-making among the financially constrained. Gneezy and Imas (Paper 1) examine the role of feelings of helplessness on impulsivity and risk taking. Specifically, they find that lower-income increases perceived helplessness, which in turn engenders higher discount rates and risk taking. Johar, Meng, and Wilcox (Paper 2) implicate another source of suboptimal behavior among the poor: that of cognitive rumination. While the poor are more likely to chronically suppress and express thoughts about financial concerns than the rich, rumination seems to better explain their heightened impulsivity and lower cognitive performance. Paper 3 investigates how people manage resources in the face of external financial constraints and shocks. Zhang, Hsee, and Sussman find evidence of an “urgency bias” whereby people choose to repay debt faster when they know the interest rate will increase in the future compared to when they know the rate is already at a high level.

Together, these papers combine secondary data, lab experiments, and field studies to raise important questions about (1) how affective and cognitive processes can impair behavior among the poor, as well as (2) the effect of exogenous factors that influence how we manage our financial resources in anticipation of the future. Papers 1 and 2 examine how economic constraints influence decisions from both an affective perspective (Gneezy and Imas) and an information-processing perspective (Johar, Meng, and Wilcox). Complementarily, Paper 3 investigates how consumers prepare for their financial future (Zhang, Hsee, and Sussman). Diving into the causes and consequences of financial challenges, this session aims to contribute to improved ability to understand and counteract some of the detrimental effects associated with these obstacles.

Poverty as Helplessness: How Loss of Control Affects Impulsivity and Risk-Taking

EXTENDED ABSTRACT
Research has shown that individuals living in poverty display greater impatience and elevated valuation of high-risk prospects such as lottery tickets, leading to choices that further undermine their chances to emerge from poverty (Lawrence 1991; Haisley, Mostafa, and Loewenstein 2008; Lynch and Zauberman 2006). One line of research posits that the poor are mired in a “culture of poverty” in which biased preferences and deviant values such as myopia and increased risk-seeking cause them to become, and remain, poor (Banfield 1970; Lewis 1970). However, recent work suggests that it is the state of living in poverty that changes individuals’ preferences and behavior (Mani et al. 2013; Vohs 2013). In outlining a mechanism for how poverty shapes preferences, Rabow, Berkman and Kessler (1983) argue that feelings of helplessness endemic to living in poverty give rise to the elevated levels of impatience and risk-seeking the poor often display.

The helplessness theory of poverty suggests that the scarcity inherent in being poor severely restricts individuals’ choice sets, resulting in a loss of agency and feelings of not being in control of one’s life. This state of helplessness increases impulsivity and risk-seeking that drive suboptimal decisions such as buying lottery tickets, gambling, and taking payday (Kane 1987). The result is a grim cycle in which individuals’ choices further reinforce their abject states, creating poverty traps in which those who become poor stay poor. However, although helplessness is often comorbid with an increased preference for immediate rewards and high-risk prospects, studies have yet to establish the causal link between these constructs—critical for the helplessness account of poverty. This paper combines insights from marketing, sociology, and behavioral economics to present the first causal evidence for the role of helplessness in relative greater discounting of the future and increased preference for high-risk rewards.

We first establish a link between low income and an increased sense of helplessness using a large data set from the World Values Survey comprised of 60,094 individuals from 48 countries. To capture sense of helplessness, we used participants’ responses to the question of how much free choice and control they have over their lives. We used responses on income class as a measure of relative income. Running a fixed-effects regression of the helplessness measure on relative income, our analysis revealed the predicted significant relationship between income and helplessness, with poorer individuals reporting feelings of having less control over their lives (β = -.31; p<.001).

To first demonstrate a relationship between poverty and impatience, we elicited and compared the discount rates of poorer individuals and those who are financially better off. The first group
Thinking About Financial Deprivation: Rumination and Decision Making Among the Poor

EXTENDED ABSTRACT

Why are the poor often susceptible to impaired decision-making? Recent work demonstrates that people who face scarce financial resources make suboptimal decisions and perform worse on a variety of cognitive tasks compared to those who do not face such constraints (Mani et al. 2013; Shah, Mullainathan, and Shafir 2012). The current research aims to illuminate the precise cognitive mechanism potentially responsible for these impaired decisions in order to derive implementable interventions.

Aversive thoughts about money are likely to be more accessible for the poor than the rich; given this, the poor may be predisposed to ruminate on, or dwell upon, their financial concerns. Indeed, a pilot study found that lower-income individuals were more prone to agree with statements such as “I have thoughts that I cannot stop” and “My thoughts frequently return to one idea” than the rich (select items from the White Bear Suppression Index, or WBSI; Wegner and Zanakos 1994). A large body of work has implicated the role of rumination in negative mood and a host of psychopathologies, including depression, anxiety, binge eating and drinking, and self-harm (Nolen-Hoeksema, Wisco, and Lyubomirsky 2008). In two field studies, we examine the effect of income on rumination about financial concerns in particular and highlight some downstream negative consequences of rumination on decision making. A third study investigates the efficacy of interventions such as suppressing thoughts about financial concerns, versus encouraging their free expression, on impulsivity.

Study 1 used a representative U.S. panel (N=517) to test the mediating role of rumination on impulsivity and cognitive function. Participants completed a monetary intertemporal titrator composed of 11 choices between a smaller, immediate reward and a larger, delayed reward (Green, Fry, and Myerson 1994), followed by a measure of cognitive performance and ability (Cognitive Reflection Task; Frederick, 2005). We then administered the WBSI and an adapted financial rumination scale (Scott and McIntosh 1999), along with alternative mediators hypothesized ex ante to be psychologically relevant (i.e., self-efficacy, desirability of control, self-control, and tightwad-spendthrift scores).

To analyze impulsivity, we interpolated an indifference point for each individual and estimated a discount rate parameter assuming a hyperbolic value function (Mazur 1987). The results demonstrate that the poor—both when classified as having incomes below $40,000 and on a continuous scale—discounted the future more (i.e., chose smaller-sooner rewards more often) and ruminated more on their finances than the rich. Rumination fully mediated the relationship between income and impatience. A similar pattern obtained for CRT scores (after controlling for numeracy). In additional, rumination mediated the relationship between income and several consequential financial behaviors: namely, the likelihood of having taken a payday loan in the past, using a pawn shop, being able to raise $2,000 for an emergency, and spending more than one’s income over the past year.

Study 2 (N=949) extends these findings using a naturally occurring event to create conditions that would make the poor more likely to ruminate on their finances. Previous research finds that the poor tend to display impaired decision-making just before they receive a windfall gain. This tendency is best illustrated by Mani et al. (2013), who found that farmers’ cognitive function was impeded immediately before harvest compared to after harvest. We recruited participants (all with annual household incomes below $40,000) and compared rumination among those who claimed the Earned Income.
Tax Credit (EITC) on their 2014 tax return relative to those who did not plan to claim EITC. Results reveal that compared to those who did not plan to claim this credit, rumination was higher among people who either received, were awaiting, or were planning to file for the EITC. Again, rumination significantly mediated the relationship between EITC status and impatience, as well as between EITC and CRT scores. These patterns suggest that the effects of rumination hold even when there is no variation in real income—in other words, the mediating role of financial rumination may generalize to situations involving both chronic and situational (or perceived) poverty.

If the poor focus too much on their financial concerns, one solution is simply to encourage them not to. However, literature on the “ironic processes” of mental control has shown that inhibiting attention to a target thought often backfires, triggering the very thoughts we wish to suppress (if I tell you not to think about a white bear, you will invariably think about a white bear; Wegner et al. 1987). From this perspective, suppressing thoughts of poverty when it is the “white bear” in the room may lead people to do worse—by overborrowing, say, or engaging in other reckless behaviors. A third study found, however, that while financial rumination exacerbated impulsivity, thought suppression did not produce significant gains in time preferences between the poor and the well-off. Specifically, 538 Amazon Mechanical Turk participants were told to either (a) freely type their thoughts, including any financial concerns (express condition), (b) freely type their thoughts, excluding any financial concerns (suppress condition), or (c) list the names of streets near their hometown (control). Discount rates were imputed using the same monetary intertemporal choice titrator from Studies 1 and 2. As anticipated, the poor discounted the future more than the rich. Further, while no differences by condition emerged among higher-income individuals, the poor exhibited much higher discount rates only in the express condition. Hence, simply allowing for the free expression of money-related thoughts and scarcity caused the poor to behave more impulsively.

In sum, our findings suggest that the poor are chronically more disposed to ruminate on their finances, and that this tendency may in turn give way to myopic preferences (higher discount rates) and cognitive decrements (lower scores on the CRT). If rumination, then, is to blame for “worse” decisions among the poor, what actionable steps can we take to attenuate or eliminate its negative effects? As a next step in this research program, we plan to test the efficacy of different interventions that reduce rumination on financial concerns to try to correct for the detrimental downstream consequences on impulsivity and other decisions.

An Urgency Effect in Responses to Future Rate Increases

EXTENDED ABSTRACT

Total consumer debt outstanding has been increasing since 2010 and reached over 3 trillion dollars in 2014 (Federal Reserve, 2014). Existing literature in financial decision making has shown that consumers have trouble dealing with their debts, understanding their credit card use and optimizing their repayment plans (e.g., Amar et al. 2011; David and McShane 2012). Studies have also shown that consumers have trouble figuring out how interest rates affect their finances and underestimate the effort required to pay off their debts (e.g., Soll, Keeney, and Larrick 2013).

The current research focuses on debt repayment behavior. Specifically, we examined how knowledge of the timing of future interest rate increases influences a person’s decision about when to repay their debts. We found that when the interest rate is already high, or is expected to increase in the very near future, people pay their debts more slowly than when it is currently at a lower level and expected to rise in the (not very near) future. We also investigated the underlying mechanism of this pattern, uncovered boundary conditions, and sought to generalize the pattern beyond debt payments to other domains of consumer behavior.

In Study 1, we asked 60 MTurk participants to imagine that they had taken out a loan last year. The interest rate on the loan was flexible and would increase from 2% to 5% at some point. We manipulated when the interest rate increased. In the rate-already-increased condition, we told participants that the lender had notified them that the rate had increased three months ago. In the rate-will-increase condition, we told participants that the lender notified them that the rate will increase in three months. Then, participants stated when they would like to pay back the loan. Participants in the rate-will-increase condition decided to pay off the loan significantly faster than those in the rate-already-increased condition ($M_{10.27}$ vs. 7.27 months, $p<.01$), despite the fact that the accumulated interest (total cost) was higher in the rate-already-increased condition.

Study 2 aimed to replicate the basic effect we found in Study 1 and to show that the effect goes beyond past-future asymmetry (i.e., valuing future events more than equivalent past events, Caruso et al. 2008). In Study 2, we asked participants when they would pay back a loan, varying when in the future the interest rate would increase: immediately (this coming month), in a certain future time (four months from now) or in an uncertain future time (sometime between this month and 12 months from now). We found that participants in the certain-future ($M=6.41$ months) and uncertain-future ($M=7.69$) conditions decided to pay off the loan significantly faster than participants in the increase-immediately condition ($M=11.17$ months, $p<.05$ for this month vs. four months; $p<.05$ for this month vs. uncertain future).

One possible explanation is that overly aggressive goals might bring counterproductive consequences (e.g., Locke and Latham 2006; Soman and Cheema 2004). Participants may adopt the temporal cue (i.e., when the rate increases) as a deadline and automatically set up a goal to pay the money back before the deadline, but this only happens when the temporal cue is achievable. Therefore, when participants knew that the rate would increase in the coming month, that temporal cue did not trigger either the setting of an automatic goal (a deadline) or the motivation to pursue it, because they did not consider the goal achievable. They would otherwise repay the debt following their own pace. However, deadline-setting cannot fully explain why participants decided to repay sooner in the uncertain-future condition.

Another possible explanation is an “urgency bias.” Research has shown that people are more sensitive to changes than the status quo (Kahneman and Tversky 1979). People should normatively prioritize their repayment effort according to the interest rate. However, the rate increase looms larger than the objective amount of that rate in people’s decisions. In other words, people perceive the anticipation of an increased rate to be more urgent than a static high interest rate. Therefore, they pay more attention to the urgent cue (increasing tendency) than the important cue (interest rate) when making decisions.

In Study 3 and Study 4, we proposed two ways to draw consumers’ attention back to the interest rate. Study 3 tested whether evaluation mode (Hsee and Zhang 2010) would moderate the urgency bias. We manipulated perceived urgency (rate has increased vs. rate will increase) and evaluation mode (single vs. joint evaluation). We replicated the basic effect in single evaluation, but found that participants were more rational in joint evaluation: participants decided to pay off the rate-has-increased loan faster than the rate-will-increase
loan when the two loans were presented side by side. Study 4 tested whether contemplating on the interest rate would alleviate the urgency bias. Results showed that the urgency bias went away when we asked participants to focus on the rate itself and consider whether the increased rate was too high or too low before they made their decisions.

The urgency bias exists not only in financial decision making with punitive interest rates, but also in other consumer behavior domains. In Studies 5 and 6, we looked at consumer purchasing behavior when the price of the product changes. We found that consumers purchased more when they received a discount for only one item than if they received a discount for four items. We have tested this effect with hypothetical scenarios (e.g., buying oysters, renting a bike) and are now running studies involving real consequences.

The above studies showed that when the interest rate is already at a high level, or is expected to increase in the very near future, people pay their debts more slowly than when it is currently at a lower level and expected to rise in the (not very near) future.

REFERENCES


Pragmatism and Consumer Research

Chairs: Iain Davies, University of Bath, UK

Dan Silcock, University of Bath, UK

Paper #1: Marketing Pragmatism: A Constructive Review of Pragmatic Philosophy and Implications for Consumer Research

Dan Silcock, University of Bath, UK

Paper #2: Pragmatism, New Science and Sustainability

Richard Varey, University of Waikato, New Zealand

Paper #3: “Theory” into “Knowledge”: Operationalizing consumption research into behavioural change with Pragmatism

Iain Davies, University of Bath, UK

Paper #4: Can the pragmatist logic of inquiry inform consumer led market design?

Ronika Chakrabarti, Lancaster University, UK
Katy Mason, Lancaster University, UK

SESSION OVERVIEW

The objective of this session is to promote the use of pragmatism within consumer research. This topic is particularly important and relevant to the conference theme of ‘Advancing Connections’. Pragmatism maintains the demand for rigor but allows a range of methods and techniques to be employed within research, offering no preference or predetermination in this area. This means that academics are more likely to be interested by, and appreciate of, work taking a different approach to their own, as opposed to vying for credibility with them. Further, pragmatism contains certain similarities with both ends of the methodological spectrum and so would not be completely alien to anyone within the community.

The enhanced emphasis on working developable solutions to practical problems could also help to strengthen connections with practitioners, public policy makers and consumers. Here the focus on usability of findings and the style of work produced means that impact becomes a natural part of the research process, rather than something to be searched for at the end of a project. The topic therefore speaks to a range of key consumer research context areas that span the methodological divide, for example sustainability, ethical consumption, health, well-being, finance, poverty, as well as inequality reduction more generally.

Each paper in the session is either dedicated to, or strongly influenced by, pragmatic research philosophy. Dan Silcock’s paper reviews pragmatic philosophy and contributes by delineating previous literature into three distinct versions of pragmatism. He also details several advantages to a wider adoption of pragmatic thought, including potential for improving the connection between research camps. Richard Varey’s contribution relates pragmatism to a specific area of consumer research, highlighting problems within the field of sustainability and how pragmatic new science could help solve these issues.

Iain Davies’ article centres on using pragmatism to improve connections between theory and practice, exploring how consumer research theory could be operationalized into ‘knowledge’ given the pragmatic understanding of this term, and illustrates this process with work on ethical consumption. The final paper from Ronika Chakrabarti and Katy Mason provides a concrete case where pragmatic inquiry has advanced knowledge, relating to consumer-led market design, and shows how such an approach could be utilized to inform other socio-politically pertinent areas.

The session raises several challenging questions, for instance, can pragmatism appeal to a wider selection of consumer research scholars? And imperatively given the current research climate, can consumer research afford not to take the pragmatic path?

Marketing Pragmatism: A Constructive Review of Pragmatic Philosophy and Implications for Consumer Research

EXTENDED ABSTRACT

This paper promotes pragmatism as a viable middle ground philosophy for consumer research. This is not in itself a novel or new suggestion, indeed numerous leading figures within marketing have either promoted or utilized pragmatist thought (e.g. Brown, 2012; Chakrabarti & Mason, 2014; Firat & Dholakia, 2006; Hatch, 2012; Thompson, Sterni & Arnould, 1998; Varey, 2012), and these ideas are gaining considerable momentum outside of marketing (e.g. Corley & Gioia, 2011, Johnson & Duberley, 2000; Kellemen & Rumens, 2013; Kitcher, 2012; Morgan, 2007, 2014; Saddaby, 2006; Tsoukas & Chia, 2002; Weick, 1995, 2001).

However pragmatism remains stricken with internal variation and this has been a major factor in holding back its popularity and uptake. Therefore rather than suggesting another singular vision of pragmatism that should be adopted, this article contributes by delineating previous literature into three distinct versions of pragmatism. These versions are introduced within this abstract, explained in detail in the full paper, and presented in a form that can be taught and applied.

The article additionally outlines several advantages to a wider adoption of pragmatism within consumer research, namely the improvement of connections between methodological camps, potential influence on policy, the development of theory, and enhancement of the PhD process. Finally the paper provides a framework for understanding the evaluation of pragmatic research. The remainder of this abstract includes a brief overview of each section.

The history of pragmatism is covered first, from the ‘pragmatic maxim’ (Peirce, 1878) and the popularisation of ‘pragmatism’ by James in 1898, to Dewey’s (1929) ‘warranted assertions’ and ‘practical adequacy’. The central tenets to pragmatism are then explored, and here the rejection of correspondence theory is not unique, but this in combination with an emphasis on the practical nature of knowledge distinguishes pragmatism from other philosophical schools.

The three versions of pragmatism identified share similar epistemological considerations (accepting the socially constructed and practical nature of knowledge); however they are separated by the occupation of varying ontological positions. The first could be described as ontologically neutral, asserting that ontological considerations are not actually that important or useful (in fact suggesting that these become a hindrance), and is most predominantly associated with William James (e.g. 1897, 1907). The second is termed ontologically realist, believing in a single transcendent reality that bounds and limits our social constructions, and is mostly drawn from some of the work of John Dewey (e.g. 1929). The third is named ontologically relativist, where there are as many realities as there are constructions, and this view is most prominently advocated by more modern authors (e.g. Rorty, 1979, 1982). Each version has been followed or pursued by different authors and these are highlighted throughout. It is worth noting here that this paper does not advocate...