Rumination and financial decision making among the poor

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Different perspectives

HAHA!
YOU ARE POOR!
Different perspectives

HAHA!
YOU ARE POOR!

SCARCITY
Sendhil Mullainathan, Eldar Shafir
Scarcity, cognitive impairment, & other suboptimal behaviors

Mani et al. (2013)
Shah et al. (2012)
What about the poor’s way of thinking leads them to be more myopic and cognitively impaired?

What are ways to reduce myopia?
rumination, *n.*

“...compulsively focused attention on the symptoms of one’s distress, and on its possible causes and consequences, as opposed to its solutions”

Nolen-Hoeksema (2008)
Our evidence suggests:

- Financial scarcity
- Financial rumination
- Performance

- Monetary impulsivity
- Myopic debt sources
Pilot study

Poverty and financial rumination
$N = 194$

MTurk

Income (+ demographics)

Financial rumination

Financial experiences

loan activity spending patterns
Financial rumination

State-specific scale (adapted from Scott & McIntosh 1999; Wade et al. 2008)

- “I can’t stop thinking about my finances”
- “Memories about my finances have limited my enjoyment of life”
- “I try to figure out the reasons for my financial situation”
- “I often get distracted from what I’m doing by thoughts about finances”
In the last five years have you...

- Gotten a payday loan
- Gotten an auto title loan
- Gotten a refund anticipation loan
- Used a pawn shop
The poor ruminate more

Classified people who make under $40k as poor, $40k and above as nonpoor

Rumination by income distribution
Myopic debt usage by income distribution

![Chart showing debt usage by income distribution](chart.png)
The poor ruminate more
(B = .46, SE = .12, t(192) = 3.92, \( p < .001 \))

and took out more high-interest debt in the past
(B = .44, SE = .12, t(192) = 3.56, \( p < .001 \))
Study 1

Financial rumination as underlying mechanism
Study 1

$N = 530$

Online panel managed by market research company

- Task 1: ITC titrator
- Task 2: CRT

Financial rumination

Financial experiences + Income

Loan activity spending patterns

Gain frame loss frame
Impulsivity

Intertemporal choice titrator, gain frame
(e.g., Green, Fry, & Myerson 1994)

<table>
<thead>
<tr>
<th>Receive $500 today</th>
<th>〇 〇</th>
<th>Receive $525 in 6 months</th>
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<tbody>
<tr>
<td>Receive $500 today</td>
<td>〇 〇</td>
<td>Receive $550 in 6 months</td>
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Loss frame: analogous but with payment
Cognitive performance

Cognitive Reflection Task (CRT; Frederick 2005)

1. A ball and a bat cost $1.10 in total. The bat costs $1 more than the ball. How much does the ball cost?

1. If it takes 5 machines 5 minutes to make 5 widgets, how long would it take 100 machines to make 100 widgets?

1. In a lake, there is a patch of lily pads. Every day, the patch doubles in size. If it takes 48 days for the patch to cover the entire lake, how long would it take for the patch to cover half the lake?
Choice of SS options by frame

Gain: larger = more myopic
Loss: smaller = more myopic
Financial rumination mediated effect of poverty on # of SS options chosen in both gain and loss frame
(effect = -.55, SE = .18, 95% CI [-.97, -.25])

CRT scores do not explain this pattern
(results held with CRT scores as a dual mediator, with CRT mediating only in the gain frame)
Reducing rumination

Study 2

Study 3
Study 2

Cognitive distraction
Distraction inductions
(Metcalfe & Mischel 1999; Nolen-Hoeksema & Morrow 1993)

Might re-focusing the poor’s attention (to a non-financial domain) help them perform better?
Study 2

$N = 339$

Income (+ demographics)

“News evaluation task” (MTurk)

Money article vs. Time article

high financial rumination vs. low financial rumination

e.g., payday loans

Measure 1: Myopic debt preferences

Measure 2: ITC titrator (gain frame)
Study 2

Americans Worried About Their Personal Finances

It is clear that Americans remain deeply worried about their finances.

Consider: In a recent survey, nearly 66% of Americans said they were worried about their family’s economic security; roughly six in 10 Americans were anxious about how they would pay their health care costs.

The majority fell behind on their savings and almost three out of four were concerned that their money wouldn’t last through retirement. Other recent studies have found similar concerns: New research from the Consumer Federation of America, for instance, found that only a third of Americans feel prepared for their long-term financial future.

Americans Worried About Their Personal Time

It is clear that Americans remain deeply worried about their time.

Consider: In a recent survey, nearly 66% of Americans said they were worried about how much time they have to get things done; roughly six in 10 Americans were anxious about how much free time they have.

The majority fell behind on outstanding work and almost three out of four were concerned about their time management skills. Other recent studies have found similar concerns: New research from the Consumer Federation of America, for instance, found that only a third of Americans feel prepared to manage their weekly schedules.
How much did reading the news article make you worried about your finances? [concerned, focused on causes and consequences, etc.]

Study 2

higher rumination (situational)
Study 2

Interest in taking on myopic debt
(indexed)

more interested

![Graph showing interest in taking on myopic debt for poor and non-poor individuals.](image)

- **money article**: Interest is lower for poor individuals compared to non-poor individuals.
- **time article**: Interest remains relatively constant for both groups.
Study 2

Number of SS options chosen

more impulsive

![Graph showing the number of SS options chosen for poor and nonpoor participants for money and time articles.](image)
Study 3

Social support
Perceptions of available emotional support influence mental health more than actual receipt (Metcalfe & Mischel 1999; Nolen-Hoeksema & Morrow 1993)

Perceived social support can mitigate effects of ruminating on daily experiences of negative affect (Puterman et al. 2010)
Study 3

$N = 437$

Income (+ demographics)

Control vs. Social support

Myopic debt preferences
Control: proceed directly to myopic debt measure

Social support: initial generation task

Please think about people in your life with whom you currently have a confiding relationship.

By *confiding*, we mean people you are very close to whom you would feel comfortable discussing personal matters with, including your **financial concerns and issues**.

Write down the initials (e.g., "AB") of 3 of these individuals in the boxes below.

Person 1:  

Person 2:  

Person 3:
Study 3

Interest in taking on myopic debt (indexed)

more interested
Ruminating on finances may explain why the poor are more impulsive than the “rich.”
Ruminating on finances may explain why the poor are more impulsive than the “rich.”

Taking away the poor’s attention from their financial concerns or increasing their perceived level of social support decreases the attractiveness of harmful debt.
Distinguishing between adaptive vs. maladaptive forms of rumination (e.g., brooding vs. reflection)

Implementing longitudinal, scalable interventions in the field to help people better cope with chronic financial distress
Thanks!