Status Quo Bias in Investment and Insurance Behaviour: Evidence From A Ugandan Field Experiment

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12th February 2013
Two Puzzles

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- Duflo, Kremer, & Robinson (2008, AER P&P) show that the expected return on investment in fertilizer is very high (69.5% on an annualised basis), but the take-up is low (37% report having ever used fertilizer).
- There is also strong evidence of underinsurance in developing countries:
  - Gine, Townsend, & Vickery (2008) find risk-averse people are less likely to buy insurance.
- The most common (almost universal) explanation is a lack of trust of market products, e.g., Karlan, Osei, Osei-Akoto, & Udry (2012).
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- Duflo & Saez (2003) find default bias $\succ$ social pressure in pension decisions
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1st Treatment: Investment
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2nd Treatment: Insurance

1 coin 9 coins
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  **Safe:** 500, $p = 1$
  
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  3rd Treatment: Neutral
  
  1 coin
  
  8 coins
  
  1 coin
The EUT way to think about these gambles would be
\[ V(L) = v(a) + 0.8v(2b) \]
where \( x = 10 = a + b \), and \( a \) and \( b \) are respectively the number of coins placed in the safe risky baskets.
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Risking one extra coin implies \( \pi(0.8)v(2b) - \lambda v(a) \)

Risking one fewer coin implies \( v(a) - \lambda \pi(0.8)v(2b) \)

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Analysis: Is there a default bias effect?

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<th>Mean</th>
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Table: Summary of coins risked, by treatment

Null Hypothesis T Statistic P Value
Safe = Risky 3.50 0.00***
Safe = Neutral 2.44 0.01***
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Table: T statistic for difference in means

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Is there a default bias effect?
Is it just inertia,
As in Madrian and Shea, 01, QJE?

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<tr>
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<tbody>
<tr>
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<td>10</td>
<td>2</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>4</td>
<td>1</td>
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In the first round subjects 1-10 went to table A and subjects 11-21 to table B
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We vary the pairing of treatments to make sure we get enough variation
Social Effects
What should we expect?

- Some evidence from lab experiments of risky and/or safe shifts (Cooper & Rege, 11, GEB)

Some evidence regarding large social effects in the spread of new technology in developing countries (Bandiera & Rasul, 06, EJ; Conley & Udry, 10, AER).

In a prospect theory story, this becomes a new reference point (Clist, D’Exelle & Verschoor, 2012, DEV).
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Change in number of coins risked, by the difference between the social signal and 1st round decision

Note: Y scales are percentages.
The difference between 1st and 2nd round decisions against the difference between the social signal and the 1st round decision.
How strong is the convergence to the social mode?

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- Thanks for listening!
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We have recently received the survey data - early results show that

- Men risk more by 0.5 coins on average; 2 sample t test is significant at 10%
- Married people (84% of the sample) risk more by about 0.7 (sig at 10%)
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  - Married people (84% of the sample) risk more by about 0.7 (sig at 10%)
  - The treatment effects are strong and reinforce the message of earlier analysis

- I’ve been using an ordered logit to deal with the attractiveness of the 0, 5 and 10

- In the analysis of change in # of coins risked, everything (apart from the social signal-1st decision distance) is insignificant
### Table: Ordered Logit on coins risked (1st decision)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Err.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral Treatment</td>
<td>0.751***</td>
<td>(0.22)</td>
</tr>
<tr>
<td>Risky Treatment</td>
<td>1.027***</td>
<td>(0.35)</td>
</tr>
<tr>
<td>Female</td>
<td>-0.291**</td>
<td>(0.12)</td>
</tr>
<tr>
<td>Unmarried</td>
<td>-0.646**</td>
<td>(0.28)</td>
</tr>
<tr>
<td>Secondary Education</td>
<td>0.451*</td>
<td>(0.27)</td>
</tr>
<tr>
<td>Tertiary Education</td>
<td>0.466</td>
<td>(0.77)</td>
</tr>
<tr>
<td>No Education</td>
<td>0.259</td>
<td>(0.30)</td>
</tr>
<tr>
<td>Anglican</td>
<td>0.332</td>
<td>(0.34)</td>
</tr>
<tr>
<td>Muslim</td>
<td>0.075</td>
<td>(0.09)</td>
</tr>
<tr>
<td>Seventh Day Ad.</td>
<td>0.987***</td>
<td>(0.31)</td>
</tr>
<tr>
<td>Born Again</td>
<td>-0.270</td>
<td>(0.52)</td>
</tr>
<tr>
<td>Other Protestant</td>
<td>0.205</td>
<td>(0.41)</td>
</tr>
</tbody>
</table>

### Table: Cut points

<table>
<thead>
<tr>
<th>Estimate</th>
<th>Std. Err.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-2.921</td>
</tr>
<tr>
<td>2</td>
<td>-2.672</td>
</tr>
<tr>
<td>3</td>
<td>-2.335</td>
</tr>
<tr>
<td>4</td>
<td>-2.057</td>
</tr>
<tr>
<td>5</td>
<td>-1.630</td>
</tr>
<tr>
<td>6</td>
<td>-0.347</td>
</tr>
<tr>
<td>7</td>
<td>0.153</td>
</tr>
<tr>
<td>8</td>
<td>0.510</td>
</tr>
<tr>
<td>9</td>
<td>0.945</td>
</tr>
<tr>
<td>10</td>
<td>1.645</td>
</tr>
</tbody>
</table>

Note: The 'default' is: Catholic, male, primary school, safe treatment. Robust standard errors, clustered by the four enumerators.
### Table: Standard OLS with Robust SE Clustered by enumerator

<table>
<thead>
<tr>
<th>Category</th>
<th>Beta</th>
<th>T-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral Treatment</td>
<td>1.051*</td>
<td>2.949</td>
</tr>
<tr>
<td>Risky Treatment</td>
<td>1.368*</td>
<td>2.444</td>
</tr>
<tr>
<td>Female</td>
<td>-0.366</td>
<td>-2.282</td>
</tr>
<tr>
<td>Unmarried</td>
<td>-0.878*</td>
<td>-2.907</td>
</tr>
<tr>
<td>Anglican</td>
<td>0.482</td>
<td>0.886</td>
</tr>
<tr>
<td>Muslim</td>
<td>0.113</td>
<td>0.512</td>
</tr>
<tr>
<td>7th Day Ad.</td>
<td>1.358**</td>
<td>4.954</td>
</tr>
<tr>
<td>Born Again</td>
<td>-0.601</td>
<td>-0.709</td>
</tr>
<tr>
<td>Other Protestant</td>
<td>0.806</td>
<td>1.124</td>
</tr>
</tbody>
</table>