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- Ma-Kellams and Blascovich: participants paid with money demonstrated worse performance in detecting other people's emotions than participants in a neutral condition (without monetary payment).

(c) Money alters values, ethics and morals

- The previous two predictions introduced suggests that money highlights the self and downplays empathetic relations with others. The combination of these assumptions implies that money affects social norms and values.
- Money aids both individuals and societies. However, if money stimulates a focus on individual demands, it might motivate people to pursue self-interest and usurp more than is fair.
- This point of view is consistent with greed and selfishness and more generally with weakened moral sentiments. When people think about money, they can be driven to engage in immoral behavior such as cheating to get more resources. Ethics is rooted in social relations and to the extent that money weakness communal bonds, the presence of money could decrease the importance of morality.
- On the other hand, humans benefit from engaging in fair and reciprocal trade. Mutually beneficial cooperative transactions with people from outside one's in-group were the catalyst to humanity's success. Hence, money might also evoke notions of honesty and fairness.
- These two lines of reasoning suggest that on a psychological level, money can produce a tension between taking more than is fair and upholding codes of fairness, honesty, and trust. Experiments indicate that, depending on the context, the idea of money can stimulate ethical or unethical behavior.

The method of money priming: akin to getting a taste of big money

- Most experiments use this technique. Priming is defined as the unconscious activation of social knowledge structures or mental representations related to specific ideas, objects, or other concepts used as primes.
- In experiments, participants are verbally or visually reminded of money and they are not rewarded or paid as it might hinder the results.
- Participants are not supposed to know that the money priming (task 1) is related to the other tasks.

provide the greatest sources of satisfaction and dissatisfaction in life either directly (as ends) or indirectly (as a means to ends).

- This definition refers to individual differences and there is disagreement as to whether these differences should be construed as variation in fundamental personality traits, or in values or beliefs.
- Materialism is a value, a belief about the relations between conduct and goals that organizes behavior across contexts.
- According to Richins and Dawson (1992), this value comprises three dimensions, namely, (1) the centrality of material possessions and wealth in a person's life; (2) the belief that acquisition of material goods and wealth is essential for happiness; and (3) beliefs that possessions enable judgements to be made about the success of the self and others. They constructed the Material Values Scale (MVS), where participants indicate using a Likert scale the degree to which they endorse 18 statements representing these three dimensions (see Chapter 5 in this volume).
- Schwartz (1992) produced the Schwartz Value Survey. He insisted that materialism should be studied in the context of other values. He produced a circumplex measure of ten value priorities, where values that are more compatible are located more closely together on the circle whereas values that are opposed are located opposite one another on the circle. Self-enhancement - the value of acquiring power and standing out from others in terms of money and status is closest conceptually to materialism.
- Kasser and Ryan (1993) produced the Aspiration Index, a 21-item self-report scale where participants rate the importance to them and the likelihood of their achieving goals in the domains of self-acceptance, affiliation, community feeling and financial success.
- In conclusion, materialism has been variously defined as a personal trait, as a prioritizing of materialist possessions and their significance or personal success and happiness, and as the importance people attach to goals for wealth and material possessions. MVS, SVS and AI have all been extensively used in research.

Causes of Individual Differences

- Particular personality traits or combinations of traits predispose individuals to adopt materialist values.

- A person who has a strong preference for immediate consumption is expected to spend in the present period at the cost of future periods and may even borrow to do so.
- *'Consideration of Future Consequences' (CFC)* - the extent to which people consider the potential distant outcomes of their current behaviors and are influenced by those potential outcomes.
- Joireman and King (2016) summarize the findings concerning CFC and financial behavior: Higher CFC is associated with lower levels of temporal discounting, problematic gambling, credit card debt, higher levels of saving and intentions to enroll in a 401(k)-retirement plan in the United States.

Attitude towards saving:

- Both Keynes (1936) and Katona (1975) argued that most people have positive attitudes towards saving.
- Julander (1975) found that attitudes towards saving positively correlated with several measures of saving behavior. In another Swedish study, attitudes towards saving were positive among all respondents, particularly among elderly people.
- Furnham (1985) identified 5 saving attitude factors and found that they were positively related to age and educational level. He also found that people could simultaneously think that saving is pointless but beneficial and concluded that people can hold different attitudes towards their own saving as opposed to attitudes towards saving in general.
- The relationship between saving attitudes and saving intentions was tested and attitudes and intentions were related only for people with a distant-future time perspective and not for people with a short-term perspective.

Saving Motives

- Katona's saving categories:
  - (a) For emergencies, corresponding to the 'precautionary saving motive'
  - (b) For retirement
  - (c) For children and family needs
  - (d) For other purposes (including a house or vacation)
- Katona's saving categories are the most general and although people may use other categories, they can easily be defined into Katona's categories.

- Precautionary saving motive has been studied, but the results were inconclusive ranging from very important to unimportant.
- *Buffer stock model:* precautionary motive only motivates people who have not saved enough to meet their need for a financial buffer.
- The precautionary and retirement motives increase the likelihood of saving regularly or irregularly, but only the retirement motive can distinguish regular from irregular savers.
- Canova et al (2005) find support for a hierarchical structure of motives. At the top of the hierarchy are abstract goals, such as self-esteem and self-gratification and at the bottom were concrete goals such as purchases.
- When testing the predictive power of the six goals on actual saving behavior, retirement/security and self-actualization have the strongest association with saving.
- Soman and Zhao (2011) found that many simultaneous saving goals may have a negative impact on saving. Having one saving goal leads to higher savings than not having a saving goal but having one goal leads to higher saving rates than multiple goals. Having only one goal seems to make the implementation of saving plans easier.
- More research needed in the area. We do not know how strongly different motives influence actual saving behavior.

Personality

- In this line of study, the Big Five taxonomy is used.
- Brandstätter (1996) finds that emotional stability, introversion and conscientiousness are associated with the respondents' saving the previous year. He proposes a model where personality traits indirectly influence saving through attitudes towards saving.
- Wärneryd (1996) concentrated on 'conscientiousness', which includes the degree of self-discipline, planning, and competence. In a study of Dutch households, he finds that conscientiousness is related to financial self-control. He also finds that conscientiousness and agreeableness are significantly related to saving behavior and intention to save. The strength of these relationships is mediated by saving attitudes.
- Nyhus and Webley (2001) used Dutch household data and found that emotional stability and introversion are positively linked with saving whereas autonomy and agreeableness are negatively related to saving. Emotional stability is found to be related to saving intentions.

- On the positive side, it is a widely accepted standard of comparison based on a standard time period that is, as we saw, easy to use with a simple ‘take the best APR’ rule. On the negative side, however, the APR is a complex statistic that can be misunderstood.

Repayment Strategies

- A common repayment strategy that borrowers adopt is to choose the highest repayment level that is affordable within recurrent budget period constraints in order to reduce total cost and loan duration (Ranyard et al., 2006).
- There is other evidence, however, that debtors tend to pay off smaller debts first, thus reducing the overall number of outstanding debts, rather than prioritize debt accruing the highest rate of interest (Amar, Ariely, Ayal, Cryder, & Rick, 2011).
- In addition, repayment decisions depend on psychological dispositions and states, as well as contextual variables. With respect to the former, for example, concern for future consequences has been found to correlate with credit card repayment levels.
- Concern for future consequences has been found to correlate with credit card repayment level. The mere presence of minimum repayment information on credit card statements has been found to influence repayment decisions.

Routes to Over-Indebtedness

- A review by Ford (1988) identified three broad groups of factors associated with defaulting:
  - (a) The macroeconomic and social environment
  - (b) Changes in personal circumstances that can disrupt the household's income or expenditure
  - (c) Psychological factors
- Berthoud and Kempson (1992) found that their respondents explained problem debts as being mainly due to reduced income or other changes in circumstances (34% of respondents); insufficient income (25%); unexpected bills (10%); or overlooked payments (8%).
- Around 10% of those in the lowest income range had multiple problem debts, compared to 1% or less for those in above-average income ranges.
- Having multiple debt occurrences was also related to having children, having more credit commitments and less unfavorable attitude towards arrears.

- A 2011 UK survey reported that 13% of respondents were spending more than 30% of their income on unsecured credit repayments; furthermore, 7% were more than three months in arrears on bills or credit repayments.
- In France, the number of over-indebtedness cases filed with the authorities in recent years has been almost a quarter of a million a year. These recent surveys continue to identify low income and shocks to household budgets as major contributors to over-indebtedness.
- The French Survey identifies the critical factors of over-indebtedness as lack of commitment to budget management and lack of precautionary savings and use of revolving credit as a substitute for income. And people waited between 3 months and a year before seeking support.
- Gathergood (2012), lower levels of financial literacy were associated with over-indebtedness.
- A cross-lagged analysis indicated that several psychological variables were a consequence of over-indebtedness, including having less unfavorable attitude towards debt; a time preference for spending immediately; shorter planning horizons; and using certain 'low-tech' money management techniques.

Psychological Consequences of Debt

- Fitch, Hamilton, Bassett, and Davey (2011) concluded that 'plausible data exist which indicate that indebtedness may contribute to the development of mental health problems' (anxiety, strained family relations, unhappiness)

Depression

- Wildman (2003) observed higher levels of depressive symptoms (such as loss of sleep, feelings of inadequacy) among those who felt financially strained.
- Bridges and Disney (2010), over a six-year period, they observed a 17% incidence of depression among those who were currently experiencing financial difficulty, compared to 6% among those who were not currently experiencing but had previously experienced financial difficulty, and just 2% among respondents who neither currently nor previously had financial difficulties.
- Finally, feelings of hopelessness, worthlessness, and demoralization (e.g. at not being able to make repayments, or at receiving income support) appeared to mediate the link between debt and depression.

- Not just emotions, but social pressures also play part in behaviors in the financial market.
- *Herding:* When a group of investors follow each other into (or out of) the same stocks.
- Informational herding arises when investors ignore their own ‘private’ information and instead imitate other investors’ choices because they believe the others to be better informed.
- Whether herding is rational, or irrational is debated. Ignoring private information can be beneficial when a market possesses the ‘wisdom of crowds’ (Surowiecki, 2004), referring to the observation that the average judgement among a large group of individuals who all make independent judgements is generally more accurate than any one individual.
- A reason for fund managers to herd is that unprofitable investments are likely to hurt their reputation less if others have made the same mistake. Reputation herding is an example of normative social influence.
- While it may seem self-evident that investors influence each other, this turns out to be hard to prove. Dorn, Huberman, and Sengmueller (2008) found that individual investors at a German discount broker traded more similarly than expected by chance and interpret this as evidence of herd behavior. In a typical stock and quarter, 57% of the investors were on the same side of the market, while the figure would be 50% in perfectly efficient markets.
- Lakonishok et al. (1992) found 50.1% of US pension funds to be on the same side of the market in a typical stock and quarter, using a less conservative measure, Sias (2004) reports compelling evidence of herding among fund managers.
- Herd-like behavior, as evidenced by correlated trades, may not always result from imitation. Social influence can also be indirect, for example, investors independently of each other use identical information sources or investment strategies, in which case, correlated trades indicate ‘clustering’ rather than herding. It is hard to distinguish the two.
- Success stories and advice from friends, colleagues, and neighbors can also influence investors. Kaustia and Knüpfer (2012) show that Finnish investors are particularly likely to buy stocks for the first time when people living within their own postal code area have recently made good returns on their stocks. Interestingly, the likelihood of entering the stock market does not diminish with a poor performance of neighbors, possibly indicating that people only talk about their investments when they are successful.

- Authorities using fair procedures and engaging in assisting taxpayers rather than exclusively focusing on audits and fines are perceived as trustworthy. A strong psychological contract ensures voluntary cooperation.
- This resembles the trust paradigm identified by Alm and Torgler (2011) as one of the three paradigms of tax administration:

1.In the traditional enforcement paradigm, taxpayers are treated as potential criminals.

2.In the service paradigm, tax authorities acknowledge the necessity to make tax compliance easier by way of offering service.

3.In the **trust paradigm,** the importance of building trust between interacting parties is emphasized, and trust is based on the expectation of both taxpayers and tax authorities that the other party will act beneficially**.**

Slippery Slope Framework

- In the slippery slope framework, Kirchler, Hoelzl, and Wahl (2008) and Kirchler, Kogler, and Muehlbacher (2014) proposed that in an antagonistic interaction climate, the strong power of the authorities leads to enforced compliance. In a synergistic climate, strong mutual trust leads to voluntary cooperation.
- Muehlbacher, Kirchler, and Schwarzenberger (2011) confirmed the assumptions of the slippery slope framework and show also that taxpayers feeling forced to contribute by the authorities attempt to think strategically about how to avoid tax pressure, rather than cooperating spontaneously.
- Voluntary cooperation depends primarily on trust in the state and its authorities; however, if cooperation does not occur voluntarily, tax compliance needs to be secured by force.
- Trust also originates from **proper use of power**, in the sense that the authorities protect the cooperative majority from free riders.
- The power of an institution can be perceived as a **necessary precondition for trust.**
- When the power of tax authorities is perceived as legitimate power, it likely has a positive effect on citizens' trust.

Practical Implications

- Trust-building measures promote cooperation.

- Vertical monitoring is based on checking tax files retroactively, whereas horizontal monitoring focuses on fair play, understanding and transparency between taxpayers and the authorities, and the planning of future activities of businesses and their tax consequences.
- Horizontal monitoring is based on a trust relationship between taxpayers and the authorities which is recorded in a compliance agreement, and on an effective tax control framework.
- It is necessary to adopt strategies building on both economic and psychological arguments to promote cooperation.
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- It is necessary to adopt strategies building on both economic and psychological arguments to promote cooperation.

- *Responsive regulation* involves listening to multiple stakeholders and making a deliberative and flexible (responsive) choice from regulatory strategies that can be conceptually arranged in a pyramid. At the bottom of the pyramid are more frequently used strategies of first choice that is less coercive, less interventionist, and cheaper.

CHAPTER 19 The Economic Psychology of Gambling

- To gamblers, uncertainty is intertwined with luck. Their belief in luck manifests itself in cognitive biases, fallacies, and real skills.

LOTTERIES /59% UK Adults/

- The chance of winning the jackpot (first prize) is typically extremely low.
- Lottery buyers may miscalculate and believe they can make money. According to prospect theory, people tend to overestimate low odds of winning (Kahneman & Tversky, 1979). Because the extremely low odds of winning the jackpot are far lower than what people

- It is quite common for gamblers to gamble more after losing. They chase their losses in an attempt to get their money back.
- They would be facing an uncertain loss with some possibility of winning back their money. According to prospect theory, people tend to be risk-seeking when choosing between a large uncertain loss and a smaller sure loss (Kahneman & Tversky, 1979).
- Martingale strategy: it claims to guarantee winning in a gambling session.
- It is quite possible that a gambler will run out of funds after a losing streak. The roulette ball does not remember its history.
- Thus, that gambler is no more likely to win after a losing streak than in any other round. In a limited number of rounds, the return could deviate far away from the expected value.
- With erroneous beliefs, people can be trapped in loss chasing and become *problem gamblers*.

FRUIT MACHINES /18% of UK adults/

- One of the main phenomena identified in studies of fruit machine gambling is the effects of a near miss. This is a losing pattern that is very similar to a winning one.
- A near miss makes gamblers feel that luck is with them and that success is on its way. As a result, near-miss experiences tend to encourage more gambling.
- In fact, by using functional magnetic resonance imaging, it has been found that the part of the brain that responds to real winning also responds to a near miss (Clark, Lawrence, Astley-Jones, & Gray, 2009). This supports the notion that a *near miss is a loss that is mistaken for a gain.* Confusion between losses and gains could lead to problem gambling. This is because near misses that are registered in the brain as gains will result in gamblers' receiving positive reinforcement even when they are losing money.

SPORT BETTING /33% UK adults/

- Gamblers believe that there is useful knowledge to be learned about different sports. There are books, columns and websites that provide tips for betting. Betting companies also sell past records to people who want to carry out analyses feel empowered by knowing the past records of sports teams and the latest updates. Their confidence level is increased, but their performance level is not.
- Superstition is common in sports gambling. Gamblers believe luck can be observed and manipulated.