

Consumer Science 901

Advanced Consumer/Household Finance

Wed 2:00 - 5:00 PM

Room: 2417 Sterling Hall

Syllabus (Jan 3, 2012)

Instructor: J. Michael Collins, 360 Middleton Bldg; 7401 Soc Sci, Phone: 616-0369 jmcollins@wisc.edu

Office Hours: 9:15-9:55 AM Monday, 8:45-9:45 AM (both at 7401 Soc Sci) and by appointment.

Resources: Learn at UW (learnuw.wisc.edu) will be your resource for this course. All readings will be posted here and assignments shall be uploaded using the 'dropbox' feature.

Prerequisites: Graduate student status and at least one course in intermediate microeconomic theory (ECON 301 or equivalent) is required. A recommended background text is *The economic organization of the household*, 2nd Ed. by W. Keith Bryant, Cathleen D. Zick (2006, or Bryant's original 1991 1st edition if you can find it). For background on causal inference see: Angrist and Pischke's *Mostly Harmless Econometrics*.

Course Overview: This course is designed for advanced masters and PhD students to provide an overview of major theories in household finance, financial literacy/capability and the evaluation of programs and strategies designed to improve financial behaviors, as well as asset building policy and the regulation of consumer financial markets. Topics include time preferences, self-control problems, financial decision making, credit management, and the role of financial information, education, planning, coaching and counseling.

Students are expected to be familiar with microeconomic theory and econometric techniques at the introductory graduate level. This is a reading and discussion course with a 3 written projects and 1 written exam. This course will not cover risk and uncertainty (see instructor for other course options at UW) but will focus on topics drawn from economics and social psychology including intertemporal choice, cognition and decision making, information economics as well as the role of public policy and regulation.

Each session will begin with an overview of the topic provided by the instructor, followed by a discussion of four to five assigned readings. Each paper discussion will be led by one student, who will prepare in advance. Every student will lead the discussion several times during the semester depending on class size.

Article Reviews: Each student will be responsible for readings each class. Read the article and help the class understand the contributions of the paper. Help us understand who the authors are and how the paper has been cited since it was first released. Present in a brief but careful way, including what the authors did well, as well as what might be improved upon in future work.

Assignments: In addition to article reviews and in-class discussions, assignments include two policy memos, each on an assigned topic. These are 1,000 word briefs designed to summarize a position, based on the extant literature. This is an important exercise that requires synthesizing information and then communicating your understanding of the material in such a way that a non-academic reader can use the information to take action. You will have about a week to complete each memo. The midterm is a written take-home exam, designed to cover the first half of the course material. You will have 48 hours to complete the mid-term. The final paper will be an applied analysis exercise designed to use the concepts from the course to examine the FINRA Financial Capability Survey (2009). The focus of this project will be on crafting a well-designed research question including a careful literature review. The FINRA data captures a range of potential topics; the goal of these projects is to use the data to explore your hypotheses. You are expected to present some empirical evidence but are not expected to develop a sophisticated econometric model (although to the extent you can use this paper as a working paper or journal article please consider how you might expand the paper in the future with these or other data). Projects must

be proposed by at least 6 weeks before the end of the term; meeting with the instructor prior to the proposal submission is strongly encouraged. You may work alone or with one (1) co-author from the class (both partners will receive the same grade). Your paper and *.do file are both to be submitted.

The final paper and mid-term are each worth 30 percent of the course grade. Each policy paper is worth 15 percent of the course grade. Attendance, presentations, and in class participation will make up the remaining 10 percent. You may re-submit memos with revisions based on instructor feedback for re-grading.

Assignment Submission Policy: Work must be submitted to the dropbox by midnight on the date due. Hard copies may also be submitted in addition. All work must be completed using L^AT_EX. This is a highly useful means of writing technical papers and you are strongly encouraged to gain experience using L^AT_EX. There are courses at DOIT and through SSCC, as well as online tutorials (including at cfs.wisc.edu). Do not fear Tex. There are graphical versions such as Lyx (free) and Scientific Word (At SSCC). There are extensive online resources. The learning curve is steep but short.

Grading Policy: In this class we will adhere to University grading standards and policies of academic misconduct. See students.wisc.edu.

Key for such a writing-intensive course, students must be cautious to avoid plagiarism defined in the UW bylaws as ‘using another person’s ideas, words, or research and presenting it as one’s own by not properly crediting the originator.’ For more information on what is considered plagiarism and how to avoid it, see The Writing Center’s handout at students.wisc.edu.

Accommodations: Your success in this class is important to me. If there are circumstances that may affect your performance in this class, please let me know as soon as possible so that we may work together to develop strategies for adapting assignments to meet both your needs and the requirements of the course. The McBurney Disability Resource Center provides resources for students with disabilities. You will need to provide documentation of disability to them in order to receive official university services and accommodations. 263-2741 and location of McBurney Center, 702 W. Johnson, Suite 2104, <http://www.mcburney.wisc.edu/>. Let me know during office hours if you require assistance or accommodations and we can work to meet

your learning goals.

Communication: Do not hesitate to come to my office during office hours. In general I will not reply to individual emails regarding course questions or material, but may incorporate comments by email into class discussion.

Course Outline:

- Week 1 Course Introduction
- Week 2 Background on Household Finance
- Week 3 Time Preferences
- Week 4 Self-Control and Impatience
- Week 5 Behavioral Models
- Week 6 Psychological Models
- Week 7 Mechanisms, Defaults, and Constraints
- Week 8 Financial Literacy: Diagnosis
- Week 9 Financial Literacy: Evaluation
- Week 10 Financial Advice
- Week 11 Goals and Coaching
- Week 12 Retirement, Savings and Asset Building
- Week 13 Credit Choices and Mortgages
- Week 14 Disclosures and Information
- Week 15 Unbanked and Financial Services

Week 1: Course Introduction

- Belsky, G., and Gilovich, T. (1999). *Why Smart People Make Big Money Mistakes— and How to Correct Them: Lessons from the New Science*. New York, NY: Simon and Schuster. Chapters 6-8
- Thaler, R. H., and Sunstein, C. R. (2008). *Nudge: Improving Decisions about Health, Wealth, and Happiness*. New Haven and London: Yale University Press. Chapters 1-3 and 17
- Ryan, A., Trumbull, G., and Tufano, P. (2010). A Brief Postwar History of US Consumer Finance. (HBS Working Paper Series No. 11-058). Cambridge, MA: Harvard Business School.

Week 2: Background on Household Finance

- Campbell, J. Y. (2006). Household Finance. *The Journal of Finance*, 61 (4), 1553-1604.
- Tufano, P. (2009). Consumer Finance. *Annual Review of Financial Economics*, 1, 227-247.
- Rabin, M. (1998). Psychology and Economics. *Journal of Economic Literature*, XXXVI (March 1998), 11-46.
- Hacker, Jacob, (2006) *The Great Risk Shift: The Assault on American Jobs, Families, Health Care and Retirement and How You Can Fight Back* Oxford University Press, USA; First Edition edition Chapter 1.

Recommended:

- Schiller, R. J. (2007). Risk Management for Households– the Democratization of Finance. *Sixth Annual Bank for International Settlements Conference, 'Financial System and Macroeconomic Resilience'*. Brunnen, Switzerland.
- List, John A., (2011) Why Economists Should Conduct Field Experiments and 14 Tips for Pulling One Off (August, 23 2011). Available at SSRN:
<http://ssrn.com/abstract=1915216>

Week 3: Time Preferences

- Frederick, S., Loewenstein, G., and O'Donoghue, T. (2002). Time Discounting and Time Preferences: A Critical Review. *Journal of Economic Literature*, 40 (2), 351-401.
- O'Donoghue, T., and Rabin, M. (1999). Doing It Now or Later. *American Economic Review*, 89 (1), 103-124.
- Meier, S., and Sprenger, C. (May, 2009). Present-Biased Preferences and Credit Card Borrowing. (IZA discussion paper No. 4198). Bonn, Germany: Institute for the Study of Labor.
- Conlin, M., O'Donoghue, T., and Vogelsang, T. J. (2007). Projection Bias in Catalog Orders. *American Economic Review*, 97 (4), 1217-1249.

Recommended:

- Laibson, D. (1997). Golden Eggs and Hyperbolic Discounting. *Quarterly Journal of Economics*, 443-477.

Week 4: Self-Control and Impatience

- Ashraf, N., Karlan, D., and Yin, W. (2006). Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines. *Quarterly Journal of Economics*, 121 (2), 635-672.
- Baumeister, R. F., Vohs, K. D., and Tice, D. M. (2007). The Strength Model of Self-Control. *Current Directions in Psychological Science*, 16 (6), 351-355.
- Vohs, K., Baumeister, R. F., Schmeichel, B. J., Twenge, J. M., Nelson, N. M., and Tice, D. M. (2008). Making Choices Impairs Subsequent Self-Control: A Limited-Resource Account of Decision-Making, Self-Regulation, and Active Initiative. *Journal of Personality and Social Psychology*, 94 (5), 883-898.

Recommended:

- Berg, N., and Kim, J.-Y. (2010). Demand for Self Control: A Model of Consumer Response to Programs and Products that Moderate Consumption. (SSRN Working Paper no. 1692423). Dallas, TX: University of Texas at Dallas. Retrieved on August 18, 2011 from <http://ssrn.com/abstract=1692423>.

Week 5: Behavioral Models

- Mullainathan, S., and Thaler, R. (2001). Behavioral Economics. In N. J. Smelser, and P. B. Baltes, *International Encyclopedia of the Social and Behavioral Sciences*. Oxford: Elsevier.
- Fox, C. R., and Poldrack, R. A. (2008). Prospect Theory and the Brain. In P. W. Glimcher (Ed.), *Neuroeconomics: Decision Making and the Brain* (pp. 145-171). Academic Press.

- Bertrand, M., Karlan, D., Mullainathan, S., Shafir, E., and Zinman, J. (2010, January). What's Advertising Content Worth? Evidence from a Consumer Credit Marketing Field Experiment. *The Quarterly Journal of Economics*, 263-306.
- Bertrand, M., Mullainathan, S., and Shafir, E. (2006). Behavioral Economics and Marketing in Aid of the Poor. *Journal of Public Policy and Marketing*, 25 (1), 8-23.
- FINRA Investor Education Foundation. Overcoming Biases to Promote Wise Investing. Princeton University.

Recommended:

- Barber, B. M., and Odean, T. (2011). The Behavior of Individual Investors. (Working Paper). Davis, California.
- Kahneman, D., and Tversky, A. (1979). Prospect Theory: An Analysis of Decision under Risk. *Econometrica*, 47 (2), 263-292.

Week 6: Psychological Models

- Zauberman, G., and Lynch, J. G. (2005). Resource Slack and Propensity to Discount Delayed Investments of Time Versus Money. *Journal of Experimental Psychology*, 134 (1), 23-37.
- Bagozzi, R. P. (1992). The Self-Regulation of Attitudes, Intentions, and Behavior. *Social Psychology Quarterly*, 55 (2), 178-204.
- Bargh, J. A., and Chartrand, T. L. (1999). The Unbearable Automaticity of Being. *American Psychologist*, 54 (7), 462-479.
- Adaval, R. (2001). Sometimes It Just Feels Right: The Differential Weighting of Affect-Consistent and Affect-Inconsistent Product Information. *Journal of Consumer Research*, 28, 1-17.

Week 7: Mechanisms, Defaults, and Constraints

- Thaler, R. H., and Sunstein, C. R. (2008). *Nudge: Improving Decisions about Health, Wealth, and Happiness*. New Haven and London: Yale University Press. Chapter 6

- Madrian, B. C., and Shea, D. F. (2001). The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior. *The Quarterly Journal of Economics*, CXVI (4), 1149-1186.
- Barber, B. M., and Odean, T. (2001). Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investment. *The Quarterly Journal of Economics*, 116 (1), 261-292.
- Tergesen, A. (2011, July 7). 401(k) Law Suppresses Saving for Retirement. *The Wall Street Journal*.

Recommended:

- Agnew, J. R., and Szykman, L. R. (2005). Asset Allocation and Information Overload: The Influence of Information Display, Asset Choice, and Investor Experience. *The Journal of Behavioral Finance*, 6 (2), 57-70.
- Mitchell, O. S., Mottola, G. R., Utkus, S. P., and Yamaguchi, T. (June 2009). Default, Framing and Spillover Effects: The Case of Lifecycle Funds in 401(k) Plans. (NBER Working Paper No. 15108). Cambridge, MA: National Bureau for Economic Research. Retrieved on August 18, 2011 from <http://www.nber.org/papers/w15108>.

Week 8: Financial Literacy: Diagnosis

- Lusardi, A., and Mitchell, O. S. (2007, January). Financial Literacy and Retirement Preparedness: Evidence and Implications for Financial Education. *Business Economics*, 35-44.
- Bucks, B., and Pence, K. (2008). Do Borrowers Know their Mortgage Terms? *Journal of Urban Economics*, 64, 218-233.
- Agarwal, S., Chomsisengphet, S., Liu, C., and Souleles, N. S. (2006). Do Consumers Choose the Right Contracts? (Working Paper 2006-11). Chicago, IL: Federal Reserve Bank of Chicago.
- Lusardi, A., and Mitchell, O. S. (2008). Planning and Financial Literacy How Do Women Fare? *American Economic Review*, 98 (2), 413-417.

- Peters, E., Vastfjall, D., Slovic, P., Mertz, C. K., Mazzocco, K., and Dickert, S. (2006). Numeracy and Decision Making. *Psychological Science*, 17 (5), 407-413.

Recommended:

- Agnew, J. R., Anderson, L. R., Gerlach, J. R., and Szykman, L. R. (2008). Who Chooses Annuities? An Experimental Investigation of the Role of Gender, Framing, and Defaults. *American Economics Review: Papers and Proceedings*, 98 (2), 418-422.
- Perry, V. G. (2008). Is Ignorance Bliss? Consumer Accuracy in Judgments about Credit Ratings. *The Journal of Consumer Affairs*, 42 (2), 189-205.

Week 9: Financial Literacy: Evaluation

- Collins, J. M., and O'Rourke, C. M. (2010). Financial Education and Counseling— Still Holding Promise. *The Journal of Consumer Affairs*, 44 (3), 483-498.
- Meier, S., and Sprenger, C. (2009). Discounting Financial Literacy: Time Preferences and Participation in Financial Education Programs. (Boston FRB Working Paper 07-05). Boston, MA: Federal Reserve Bank of Boston. Retrieved on August 18, 2011 from <http://www.bostonfed.org/economic/ppdp/2007/ppdp0705.pdf>.
- Willis, L. E. (2011). The Financial Education Fallacy. *American Economic Review: Papers and Proceedings*, 101 (3), 429-434.
- Duflo, E., and Saez, E. (2002). Participation and Investment Decisions in a Retirement Plan: The Influence of Colleagues' Choices. *Journal of Public Economics*, 85, 121-148.

Recommended:

- Hilgert, M. A., and Hogarth, J. M. (2003, July). Household Financial Management: The Connection between Knowledge and Behavior. *Federal Reserve Bulletin*, 309-322.

- Willis, L. E. (2009). Evidence and Ideology in Assessing the Effectiveness of Financial Literacy Education. *San Diego Law Review*, 46, 415-456.
- Bayer, P. J., Bernheim, D., and Scholz, J. K. (2009). The Effects of Financial Education in the Workplace: Evidence from a Survey of Employers. *Economic Inquiry*, 47 (4), 605-624.
- Cole, S., and Shastry, G. K. (2009). Smart Money: The Effect of Education, Cognitive Ability, and Financial Literacy on Financial Market Preparation. (Harvard Business School working paper 09-071). Cambridge, MA: Harvard Business School. Retrieved on August 18, 2011 from <http://ssrn.com/abstract=1317298>.

Week 10: Financial Advice

- Collins, J. M. (September 2010). A Review of Financial Advice Models and the Take-Up of Financial Advice. (CFS working paper 10-5). Madison, WI: University of Wisconsin Center for Financial Security. Retrieved on August 18, 2011 from <http://cfs.wisc.edu>.
- Hackethal, A., Haliassos, M., and Jappelli, T. (2010). Financial Advisors: A Case of Babysitters? (Netspar discussion paper 04/2010-017). Frankfurt, Germany: Network for Studies on Pensions, Aging, and Retirement.
- Bernheim, B. D., Forni, L., Gokhale, J., and Kotlikoff, L. J. (2000). How Much Should Americans Be Saving for Retirement? *The American Economic Review*, 90 (2), 288-292.
- Kotlikoff, L. (2008). An Economics Approach to Financial Planning. *Journal of Financial Planning*, 40-.

Recommended:

- Calcagno, R., and Monticone, C. (2011). Financial Literacy and the Demand for Financial Advice. EMLYON and OECD Working Paper .
- Chalmers, J., and Reuter, J. (2011). What is the Impact of Financial Advisors on Retirement Portfolio Choices? (SSRN working paper 1785833).: Social Sciences Research Network. Retrieved on August 18, 2011 from <http://ssrn.com/abstract=1785833>.

Week 11: Goals and Coaching

- Bodenheimer, T., and Handley, M. (2009). Goal-setting for behavior change in primary care: An exploration and status report. *Patient Education and Counseling*, 76, 174-180.
- Passmore, J. (2007). Behavioural Coaching. In S. Palmer, and A. Whybrow (Eds.), *The Handbook of Coaching Psychology* (pp. 73-85). London: Brunner-Routledge.
- Bettinger, E., and Baker, R. (2011). The Effects of Student Coaching in College: An Evaluation of a Randomized Experiment in Student Mentoring. (NBER working paper 16881). Cambridge, MA: National Bureau of Economic Research. Retrieved on August 18, 2011 from <http://www.nber.org/papers/w16881>.
- Castro, C. M., and King, A. C. (2002). Telephone-Assisted Counseling for Physical Activity. *Exercise and Sport Sciences Review*, 30 (2), 64-68.
- King, A. C., Ahn, D. K., Oliveira, B. M., Atienza, A. A., Castro, S. M., and Gardner, C. D. (2008). Promoting Physical Activity Through Hand-Held Computer Technology. *American Journal for Preventative Medicine*, 34 (2), 138-142.

Recommended:

- King, A. C., Friedman, R., Marcus, B., Castro, C., Napolitano, M., Ahn, D., et al. (2007). Ongoing Physical Activity Advice by Humans Versus Computers: The Community Health Advice by Telephone (CHAT) Trial. *Health Psychology*, 26 (6), 718-727.
- Stober, D. R., and Grant, A. M. (2006). Toward a Contextual Approach to Coaching Models. In D. R. Stober, and A. M. Grant (Eds.), *Evidence Based Coaching Handbook: Putting Best Practices to Work for Your Clients* (pp. 355-365). Hoboken, New Jersey: John Wiley and Sons.

Week 12: Savings

- Deaton, A. (1991). Saving and Liquidity Constraints. *Econometrica*, 59 (5), 1221-1248.
- Scholz, J. K., Seshadri, A., and Khitatrakun, S. (2006). Are Americans Saving Optimally for Retirement? *Journal of Political Economy*, 114 (4), 607-643.
- Sherraden, M., and Moore McBride, A. (2010). *Striving to Save: Creating Policies for Financial Security of Low-Income Families*. The University of Michigan Press. Chapters 2, 6, Conclusion
- Mullainathan, S., and Shafir, E. (2009). Savings Policy and Decision-Making in Low-Income Households. In M. Barr, and R. Blank (Eds.), *Insufficient Funds: Savings, Assets, Credit and Banking among Low-Income Households* (pp. 121-145). New York: Russell Sage Foundation.

Recommended:

- John, D. C., and Levine, R. (2009). National Retirement Savings Systems in Australia, Chile, New Zealand, and the United Kingdom: Lessons for the United States. In W. C. Gale, J. M. Iwry, D. C. John, and L. Walker, *Automatic: Changing the Way America Saves* (pp. 84-115). Washington, D.C.: Brookings Institution.
- Bodie, Z., Treussard, J., and Willen, P. (2007). The Theory of Life-Cycle Saving and Investing. (Boston FRB Discussion Paper No. 07-3). Boston, MA: Federal Reserve Bank of Boston. Retrieved on August 18, 2011 from <http://www.bostonfed.org/economic/ppdp/2007/ppdp0703.pdf>.
- Sherraden, M. (1991). *Assets and the Poor: A New American Welfare Policy*. New York: M. E. Sharpe, Inc. Chapter 8

Week 13: Credit Choices and Mortgages

- Financial Crisis Inquiry Commission. (2011). *The Financial Crisis Inquiry Report*. Washington, D.C.: U. S. Government Printing Office.

- Lusardi, A., and Tufano, P. (2009). Debt Literacy, Financial Experiences, and Overindebtedness. National Bureau of Economic Research, NBER Working Paper No. 14808.
- Stango, V., and Zinman, J. (2009). Exponential Growth Bias and Household Finance. *The Journal of Finance*, LXIV (6), 2807-2849.
- Stigler, G. J. (1961). The Economics of Information. *The Journal of Political Economy*, 69 (3), 213-225.
- Coulibaly, B., and Li, G. (2009). Choice of Mortgage Contracts: Evidence from the Survey of Consumer Finances. *Real Estate Economics*, 37 (4), 659-673.

Recommended:

- Stiglitz, J. E., and Weiss, A. (1981). Credit Rationing with Imperfect Information. *The American Economic Review*, 71 (3), 393-410.

Week 14: Disclosures and Information

- Barr, M. S., Mullainathan, S., and Shafir, E. (2009). The Case for Behaviorally Informed Regulation. In D. Moss, and J. Cisternino (Eds.), *New Perspectives on Regulation* (pp. 25-61). Cambridge, MA: The Tobin Project, Inc.
- Bunce, H., McFarlane, A., Reid, W. J., and Usowski, K. (2009). The Impact of Mortgage Disclosure Reform on RESPA. *Cityscape: A Journal of Policy Development and Research*, 11 (2), 117-136.
- Grossman, S. J. (1981). The Informational Role of Warranties and Private Disclosure about Product Quality. *Journal of Law and Economics*, 24 (3), 461-483.
- Akerlof, G. A. (1970). The Market for Lemons: Quality Uncertainty and the Market Mechanism. *Quarterly Journal of Economics*, 84 (3), 488-500.

Recommended:

- Stango, V., and Zinman, J. (2011). Fuzzy Math, Disclosure Regulation, and Market Outcomes: Evidence from Truth-In-Lending Reform. *The Review of Financial Studies*, 24 (2), 506-533.

Week 15: Unbanked and Financial Services

- Caskey, J. P. (2005). Fringe Banking and the Rise of Payday Lending. In P. Bolton, and H. Rosenthal (Eds.), *Credit Markets for the Poor* (pp. 17-45). New York: Russell Sage Foundation.
- Beverly, S. G., Tescher, J., Romich, J. L., and Marzahl, D. (2005). Linking Tax Refunds and Low-Cost Bank Accounts to Bank the Unbanked. In M. Sherraden (Ed.), *Inclusion in the American Dream: Assets, Poverty, and Public Policy* (pp. 167-184). New York: Oxford University Press.
- Barr, M. S., Dokko, J., and Feit, E. (2011). Preferences for Banking and Payment Services among Low- and Moderate-Income Households. (Working Paper 34). Ann Arbor, MI: University of Michigan Law School Empirical Legal Studies Center. Retrieved August 18, 2011 from <http://law.bepress.com/umichlwps/empirical/art34>.
- Romich, J., Gordon, S., and Waithaka, E. (2009). A Tool for Getting By or Getting Ahead? Consumers' Views on Prepaid Cards. (NFI Working Paper 2009-09). Terre Haute, IN: Networks Financial Institute at Indiana State University. Retrieved on August 18, 2011 from <http://ssrn.com/abstract=1491645>.
- Federal Deposit Insurance Corporation (2009). FDIC Survey of Unbanked and Underbanked Households: Executive Summary. http://www.fdic.gov/householdsurvey/Executive_Summary.pdf

Recommended:

- Caskey, J. P. (2005). Reaching Out to the Unbanked. In M. Sherraden (Ed.), *Inclusion in the American Dream: Assets, Poverty, and Public Policy* (pp. 149-166). New York: Oxford University Press.
- Rhine, S., Greene, W. H., and Toussaint-Comeau, M. (2006). The Importance of Check-Cashing Businesses to the Unbanked: Racial/Ethnic Differences. *The Review of Economics and Statistics*, 88 (1), 146-157.
- FDIC National Household Survey of Unbanked and Underbanked Households Website: <http://www.economicinclusion.gov>

Note: all readings subject to change. Suggestions for required or recommended readings are encouraged.