Economic Psychology

EDITED BY

ROB RANYARD
CENTRE FOR DECISION RESEARCH,
UNIVERSITY OF LEEDS, UK

The British
Psychological Society



Contents

Preface		XV		
Notes on Cont	tributors	xvii		
Acknowledge	ements	xxvii		
PART 1	Fundamentals	1		
CHAPTER 1	Introduction to Economic Psychology: The Science of			
	Economic Mental Life and Behaviour	3		
	Rob Ranyard and Vera Rita de Mello Ferrtira			
	1.1 Introduction	4		
	1.2 The Emergence of the Discipline	5		
	1.3 Research Methods	10		
	1.4 Economic Mental Representations	11		
	1.5 Financial Behaviour and Economic Activity	12		
	1.6 Life-Span Perspectives	13		
	1.7 Economic Psychology and Society	14		
	1.8 Summary	16		
	Note	16		
*	Review Questions	16		
	References	16		
	Further Reading	18		
CHAPTER 2	Theories of Economic Decision-Making:			
	Value, Risk and Affect	19		
	Anton Kiihberger and Michael Schulte-Mecklenbeck			
	2.1 Introduction	20		
	2.2 Value and Utility	20		
	- 2.3 Risk and Uncertainty	22		
	2.4 Developments Based on Subjectively Expected Utility (SEU)	23		
	2.5 Beyond Utility-Based Theories	25		
	2.6 Hot Decisions	27		
	2.7 Summary	31		
	Review Questions	31		
	References	31		
	Further Reading	34		

CHAPTER 3	Future-Oriented Decisions: Intertemporal Choice Daniel Read and Marc Scholten	35
	3.1 Introduction	36
	3.2 Rational Intertemporal Choice	36
	3.3 Anomalies in Intertemporal Choice	38
	3.4 Explaining Anomalies	41
	3.5 Framing Effects	42
	3.6 What Do We Care About When We Measure	
	Intertemporal Choice?	44
	3.7 Summary	45
	Notes	46
	Review Questions	46
	References	47
	Further Reading	50
PART 2	Research Methods	51
CHAPTER 4	Research Methods for Economic Psychology	53
	Gerrit Antonides	
	4.1 Introduction	54
	4.2 Qualitative Methods	55
	4.3 Quantitative Methods	58
	4.4 Conclusion	63
	4.5 Summary	64
	Review Questions	64
s	References	64
*	Further Reading	68
CHAPTER 5	Assessing Psychological Dispositions and States	
	that Can Influence Economic Behaviour	69
	Simon McNair and W. Ray Crozier	
	5.1 Introduction	70
	5.2 Psychological Dispositions and Economic Behaviour	71
	5.3 Psychological States and Economic Behaviour	76
	5.4 Methodological Issues in Assessing Dispositions and States	81
	_ 5.5 Summary	82
	Notes	83
	Review Questions	83
	References	83
	Further Reading	87
CHAPTER 6	Developing, Evaluating, and Using Subjective Scales of	
	Personality, Preferences, and Well-Being: A Guide to	
	Psychometrics for Psychologists and Economists	88
	Alex M. Wood and Christopher J. Boyce	
	6.1 Introduction	89
	6.2 The Importance of Psychometrics for Economic	
	Psychology Research	89

	6.3	Steps in Developing a Scale	91
	6.4	Other Steps and Conclusion	100
	6.5	Summary	100
	Note	,	100
	Revie	ew Questions	101
	Refe	rences	101
	Furtl	her Reading	103
PART 3	Eco	nomic Mental Representations	105
CHAPTER 7	The	Psychological Meaning of Money ^	107
	Tome	asz Zaleskiewicz, Agata Gasiorowska and Kathleen D. Vohs	
	7.1	Introduction	108
	7.2	Money: Economic and Psychological Perspectives	108
	7.3	Predictions	109
	7.4	The Method of Money Priming: Akin to Getting a Taste	
		of Big Money	111
	7.5	Results	112
	7.6	Summary	118
	Ackı	nowledgements	118
	Revi	ew questions	118
	Refe	rences	119
	Furt	her Reading	121
CHAPTER 8		ntal Accounting and Economic Behaviour	123
S	Gerr	rit Antonid.es and Rob Ranyard	
	8.1	Introduction	124
	8/2	Broad Mental Accounts	124
	8.3	Mental Accounts for Specific Financial Decisions	126
	8.4	Other Categorizations of Money	127
	8.5	Functions of Mental Accounts	129
	8.6	Determinants of Mental Accounting	133
	8.7	Conclusion	134
	8.8	Summary	135
	Revi	iew Questions	135
		erences	136
	Furt	ther Reading	138
CHAPTER 9		w Laypeople Understand the Economy	139
	Dav	id Leiser and Zeev Krill	
	9.1	Introduction: Understanding Economics Is Hard Yet Expected	140
	9.2	Interacting Variables	143
	9.3	Using Metaphors	147
	9.4	Financial Literacy	149
	9.5	Summary	150
	Rev	iew Questions	151
	Refe	erences	151
	Furt	ther Reading	154

CHAPTER 10	The Citizen's Judgements of Prices and Inflation	155
	Rob Ranyard, Fabio Del Missier, Nicolao Bonini and Davide Pietron	
	10.1 Introduction	156
	10.2 Price Evaluation	156
	10.3 Inflation	161
	10.4 Policy Implications	165
	10.5 Summary	166
	Notes Pavious Operations	166 167
	Review Questions References	167
	Further Reading	170
CHAPTER 11	Materialism and the Meanings of Possessions	171
	W. Ray Crozier	
	11.1 Introduction: The Socio-Economic Context of Possessions and Materialism	172
	11.2 The Psychological Meanings of Possessions	173
	11.3 Psychological Aspects of Materialism	176
	11.4 Materialism and Subjective Weil-Being	178
	11.5 Summary	182
	Notes	183
	Review Questions	183
	References	183
	Further Reading	185
1 PART 4 —	- — Financial Behaviour	107
CHAPTER 12	— Financial Behaviour Defining and Influencing Financial Capability	187 189
CHAITER 12	Ivo Vlaev and Antony Elliott	10)
	12.1 Introduction	190
	12.2 A New Conceptualization of Financial Capability	190
	12.3 Ways to Influence Financial Capability	196
	12.4 Conclusion	202
	12.5 Summary	202
	Notes	202
٠.	- Review Questions	203
	References	203
	Further Reading	205
CHAPTER 13	Saving Behaviour: Economic and Psychological Approache Ellen K. Nyhus	s 206
	13.1 Introduction	207
	13.2 Economic Perspectives	209
		211
	13.3 Psychological Approaches	211
	13.3 Psychological Approaches 13.4 Summary	217
	13.4 Summary	217

CHAPTER 14	The Psychology of Borrowing and Over-Indebtedness Rob Ranyard, Sandie McHugh and Simon McNair		
	14.1 Introduction	223	
	14.2 Determinants of Borrowing	224	
	14.3 Credit Choice Processes	225	
	14.4 Repayment Strategies	228	
	14.5 Routes to Over-Indebtedness	229	
	14.6 Psychological Consequences of Debt	230	
	14.7 Policy Implications	231	
	14.8 Summary	233	
	Review Questions	234	
	References	234	
	Further Reading	238	
CHAPTER 15	Behaviour in Financial Markets	239	
	Martin Hedesstrom		
	15.1 Introduction	240	
	15.2 Do Stocks Always Trade at the 'Right' Price?	240	
	15.3 Cognitive Influences on Investor Behaviour	242	
	15.4 Emotional Influences	246	
	15.5 Social Influences	248	
	15.6 Policy Implications	250	
	15.7 Summary	250	
	Review Questions	250	
	References	251	
	Further Reading	254	
CHAPTER 16	Tax Behaviour	255	
	Erich Kirchler and Erik Hoelzl		
	16.1 Introduction	256	
	16.2 Taxes and Tax Compliance	256	
	16.3 Tax Attitudes by Individual Taxpayers	258	
	16.4 Profit Shifting and Aggressive Tax Planning by Companies	260	
	16.5 Regulation Strategies by Tax Authorities	261	
	16.6 Interaction Climates Between Taxpayers and Tax Authorities	264	
	16.7 Practical Implications	267	
	16.8 Summary	268	
	Review Questions	268	
	References	268	
	Further Reading	271	
PART 5	Economic Activity	273	
CHAPTER 17	Volunteer Organizations: Motivating with Awards	275	
	Bruno S. Frey and Jana Gallus		
	17.1 Introduction	276	
	17.2 Organizational Forms	276	

	17.3 Awards as	Motivation	279
	17.4 Condition	s for Successfully Giving Awards to Volunteers	282
	17.5 Effects Of	Awards on Performance	284
	17.6 Summary		285
	Review Question	ns	285
	References		285
	Further Reading	5	286
CHAPTER 18	Entrepreneuri	al Activity	287
	Artur Domurat	and Tadeusz Tyszka	
	18.1 Introducti	ion	288
	18.2 Environm	nental Factors and Entrepreneurship	289
	18.3 Reasons f	or Engaging in Entrepreneurial Activity	290
	18.4 Personalit	y Characteristics of Entrepreneurs	292
	18.5 Psycholog	cical Traps in Entrepreneurship	296
	18.6 Teaching	Entrepreneurship	297
	18.7 Summary		299
	Review Question	ns	300
	References		300
	Further Reading	;	303
CHAPTER 19	The Economic	c Psychology of Gambling	304
	Juemin Xu and 1	Nigel Harvey	
	19.1 Introducti	ion	305
	19.2 Lotteries		305
J	19.3 Scratch C	ards	307
	19A "Roulette		307
	19.5 Fruit Mac	hines	309
	19.6 Sports Be	tting	309
	19.7 Card Gam	ies	311
	19.8 Problem 0	Gambling	312
	19.9 Summary		314
	Review Question	ns	314
	References "		314
	Further Reading	2	318
PART 6	Life-Span Pers	spectives	319
CHAPTER 20	Economic Soc	cialization: Childhood, Adolescence,	
	and Early Adu	ılthood	321
	Annette Otto an	dJoyce Serido	
	20.1 Introducti	ion	322
	20.2 A Context	tual Framework for Economic Behaviour	
	Developn	nent	322
	20.3 The Role	of Parents in Economic Socialization	325
	20.4 The Study	y of Economic Behaviour Development From	
	Childhoo	d Through Early Adulthood	327
	20.5 Summary	,	331

	Review Questions	331
	References	331
	Further Reading	336
CHAPTER 21	Childhood Psychological Predictors of Lifelong	
	Economic Outcomes	337
	Mark Egan, Michael Daly, and Liam Delaney	
	21.1 Introduction	338
	21.2 Literature Review	338
	21.3 Lifecourse Perspective	344
	21.4 Methodological Challenges	346
	21.5 Policy Implications	348
	21.6 Conclusion	349
	21.7 Summary	349
	Notes	350
	Review Questions	350
	References	350
	Further Reading	353
CHAPTER 22	The Economic Psychology of Financial Decision-Making	
	and Money Management in the Household	354
	StefanieJ. Sonnenberg	
	22.1 Introduction	355
	22.2 Financial Decision-Making in the Household	356
	22.3 Household Money Management	361
	22.4 Conclusion	366
	22.5 Summary	367
	Notes	368
	Review Questions	368
	References	368
	Further Reading	370
CHAPTER 23	Ageing and Economic Decision-Making	371
	Wdndi B'ruine De Bruin	
	23.1 Introduction	372
	23.2 "The Role of Cognitive Deliberation in Decision Making	372
	23.3 The Role of Experience-Based Knowledge in Decision-Making	373
	23.4 The Role of Emotions in Decision-Making	374
	23.5 The Role of Motivation and Strategies in Decision-Making	375
	23.6 Interventions	376
	23.7 Directions for Future Research	378
	23.8 Summary	380
	Acknowledgements	380
	Review Questions	381
	References	381
	Further Reading	386

PART 7	Economic Psychology and Society	387
CHAPTER 24	Psychological Determinants of Charitable Giving	
	Tehila Kogut and liana Ritov	
	24.1 Introduction	390
	24.2 Donation Decisions: Costs and Rewards	390
	24.3 Causes that Elicit More Help	391
	24.4 Specific Individuals in Need	393
	24.5 Effectiveness and Impact	395
	24.6 Who Helps – and When?	396
	24.7 Main Research Methods in the Study of Charitable Giving	398
	24.8 Future Research Directions	399
	24.9 Summary	400
	Review Questions	400
	References	400
	Further Reading	404
CHAPTER 25	Life Satisfaction and Emotional Weil-Being:	
	Psychological, Economic and Social Factors	405
	Tommy Garling and Amelie Gamble	
	25.1 Introduction	406
	25.2 Views of Weil-Being in Economics and Psychology	406
	25.3 Measurement of Subjective Well-Being	407
	25.4 Factors Influencing Subjective Well-Being	409
	25.5 Consequences of Subjective Well-Being »"	415
	25.6 Summary	417
-» ^J	Review Questions	417
	References	417
	Further Reading	420
_rtb> CHAPTER 26	Living in Poverty: Understanding the Financial	
	Behaviour of Vulnerable Groups	421
	Cazilia Loibl	
	26.1 Introduction	422
	26.2 Definition of Poverty	422
	26.3 Characteristics of Financial Behaviours	423
	26.4 Vulnerable Population Groups	427
	26.5 Policy Implications	431
	26.6 Summary	431
	Review Questions	431
	References	432
	Further Reading	131

CHAPTER 27	Economic Psychology and Pro-Environmental Behaviour Michel Handgraaf, Anouk Griffioen, Jan Willem Bold.erd.ijk and John Thogersen		
	27.1 Introduction	436	
	27.2 Bounded Rationality	437	
	27.3 The Environment as a Social Dilemma	441	
	27.4 Conclusion	444	
	27.5 Summary	445	
	Review Questions	446	
	References	446	
	Further Reading	450	
CHAPTER 28	Insurance Behaviour and Society Rob Ranyard, John K. Ashton and Bill Hebenton		
	28.1 Introduction	452	
	28.2 Insurance as Risk Protection	452	
	28.3 Mis-Selling	456	
	28.4 Insurance Fraud	459	
	28.5 Summary	462	
	Notes	463	
	Review Questions	463	
	References	463	
	Further Reading	467	
Index s		469	