
19 Financial decisions in the household

Bernadette Kamleitner, Till Mengay and Erich Kirchler

1 INTRODUCTION

What decisions are 'about' can influence the way decisions are made. When deciding about money, most people aim to make particularly 'smart' decisions. Mere reminders of money suffice to elicit decisions that are geared towards maximizing personal economic benefits (for example, Vohs et al. 2008; Kouchaki et al. 2013).

Many decisions are in fact about money and of a financial nature. This also holds for decisions that are made at the household level (for example, Kirchler et al. 2008). Private households dispose of larger amounts of financial resources than any other 'institution' in the state; yet, financial literacy supposedly enabling smart decisions is surprisingly low (for example, Lusardi and Mitchell 2007). Financial decisions in a household focus on what money is used for, when, how, and by whom. These decisions range from small scale to large scale and from short term to long term. Notably, household decisions often involve a varying set of actors. Beyond leading to economic outcomes, they can also influence the relationship quality of household members. As a consequence, smart financial decision making in a household entails the need to balance social and economic aspects. Eventually these decisions play a key role for the financial and psychological well-being of individuals and households.

In this chapter we provide an overview of the scope of financial household decisions and the complexity of the underlying dynamics. We do so by using a comprehensive framework of financial decision making as a starting point and by focusing on its key components in turn. We first provide a brief review of the different types of financial decisions made by individuals. We then extend the lens to multiple players in household decisions.

One of the key questions in household decision making is which of these lenses, individual or joint, is more suitable. When are decisions made jointly by the household members, when are they made autonomously, and when does which member dominate (see Davis and Rigaux, 1974)? These questions are challenging because answers are influenced by the way people live together in a household. Given that concepts of family, gender and roles are changing over time, we conclude this chapter by an empirical look at what has been and what may be. We do so by contrasting the perceived decision dynamics observed from parents and the ideal decision dynamics striven for by students. Results provide insights into which lens tends to be best suited for which type of decision. Moreover, they allow for a glimpse into potential changes in the future.

2 A COMPREHENSIVE FRAMEWORK OF FINANCIAL DECISION MAKING

The framework depicted in Figure 19.1 reflects the scope of financial decisions. A modified version of Kamleitner and Kirchler's (2007) process model on credit choice highlights the interplay of what Ferber (1973) identified as the principal types of financial decisions: (1) spending decisions (that is, purchase decisions about acquiring goods), (2) decisions about saving and credit use (that is, decisions about whether to make an acquisition when funds are currently lacking and whether to hold money back for future spending decisions), (3) investment decisions (that is, decisions on whether and how to accumulate material wealth), and (4) money management (that is, decisions on how to budget available money).

As shown in the framework, spending decisions are the starting point to understand and explain financial decisions in the household. Credit and saving decisions are secondary decisions: they are decisions made in order to ensure that enough money is available for more or less specified spending decisions. Once the decision is about the choice of saving or credit options, financial products take on the role of the 'product'. For example, when buying a new car on a loan two potentially extensive decision processes – about the car and the loan – can be involved. Investment decisions, too, tend to follow the process of extensive spending decisions. Finally, money management can be seen as an underlying mechanism that tends to be involved in all other financial decisions.

The framework also stresses the role of surrounding factors under which financial decisions take place (see Kamleitner et al. 2012). Among them there are general influences such as the individual situation persons are in (for example, social status and family background; Ashby et al. 2011) and their individual characteristics including factors such as financial literacy (for example, Dvorak and Hanley 2010; van Rooij et al. 2011), and personality characteristics (for example, Donnelly et al., 2012) like delay of gratification (for example, Norvilitis et al. 2006; Pyone and Isen 2011).

Notably, the model is not necessarily specific to individuals as decision makers. It could just as well apply to the household as a decision making unit. The framework indicates the possibility that multiple members may be directly or indirectly involved in all steps by an arrow influencing the entire model.

3 INDIVIDUAL FINANCIAL DECISIONS

Following the logic of the framework, we first provide a review of previous findings on decisions about individual expenditures before moving on to individual credit use and saving decisions as well as individual investment decisions. Finally, we discuss money management as a financial decision in itself and as an important factor in other decisions.

3.1 Spending Decisions

The literature on the process of purchase decisions is vast. In particular, in consumer research several encompassing models of the individual decision-making process have been developed. Many of these models date back to the early days of consumer research

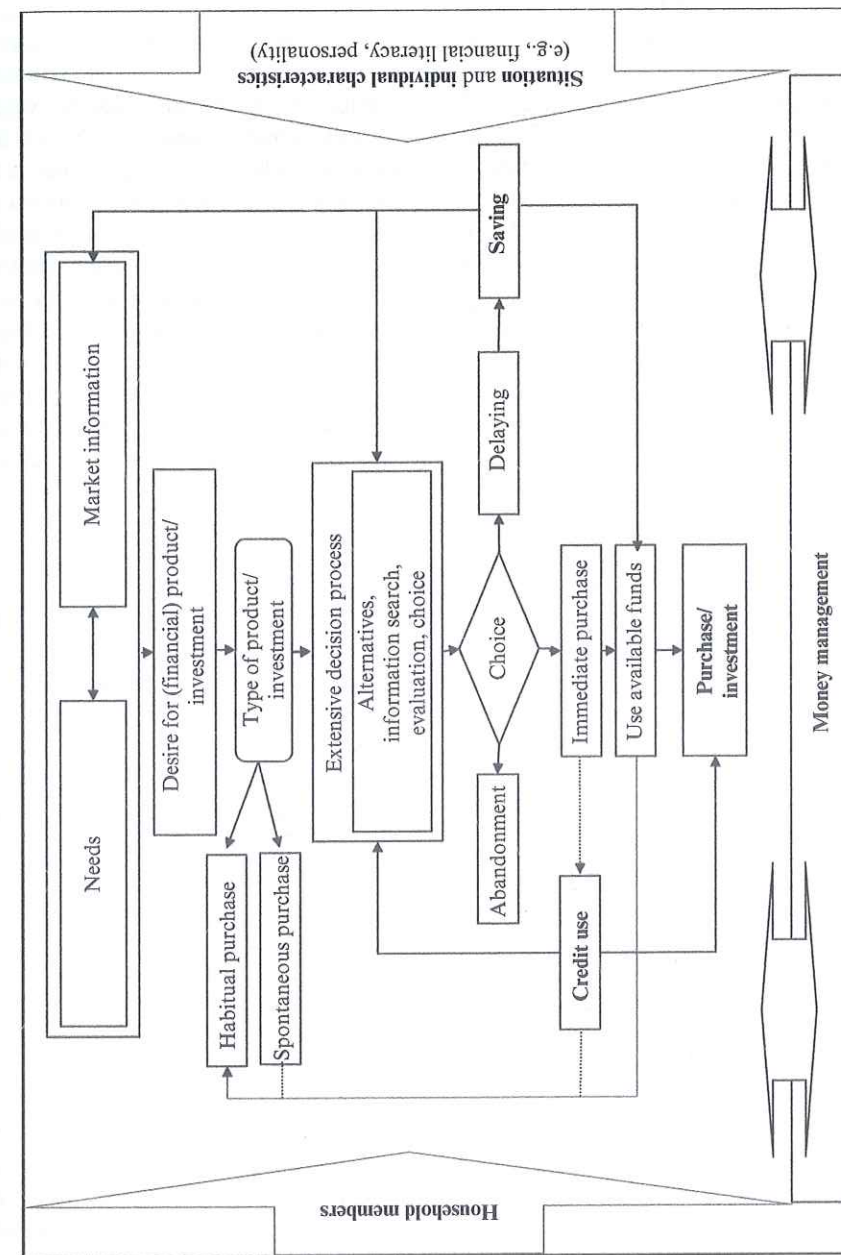


Figure 19.1 A framework of financial decision making in households

and they focus on depicting the decision process as faced by an individual decision maker (for example, Nicosia 1966; Howard and Sheth 1969; Borcharding 1983; Kroeber-Riel 1992; Engel et al. 1993, 2007). The framework offered in Figure 19.1 reflects some of the key premises that these models tend to share.

Usually decision processes start with the need for a product or service that can be prompted by stimuli from the individual sphere or outside factors like social influences or market offers. The type of good desired (for example, Kotler 1982 distinguishes on the basis of the expected lifetime of a product between durable goods, convenience goods and services) plays a key role in how a decision process unfolds, whether multiple options are searched and how deeply different choice options are elaborated. Some acquisitions are made spontaneously in a shortened and impulsive decision process. Others, in particular expenditures for regularly purchased convenience goods, are made habitually. They do not involve a decision process as such. People tend to engage in extensive decision processes for products that are rarely purchased or involve risks (for example, expensive items such as washing machines). An extensive decision process is characterized by information search and comparison. It is only after an evaluation of multiple alternatives that a decision is made. Notably, the distinction of different types of decision processes is not restricted to the acquisition of goods. Financing decisions, too, vary in terms of level of involvement and depth of processing (for example, Kamleitner et al. 2012).

3.2 Decisions about Credit Use and Saving

If a desired good is not attainable with the currently available means, consumers are left with three options (see Figure 19.1). Either they abandon the acquisition, they borrow the money, or they postpone the acquisition and save until the desired good becomes attainable. These three paths are inherently linked. Research on when which path (saving or credit) would be taken has primarily been conducted by economists (for example, Duesenberry 1949; Modigliani 1966; Prelec and Loewenstein 1998; Shefrin and Thaler 1988). Simplified, the conclusion has been that credit use is preferred if (1) the (discounted) net benefits of borrowing outweigh the (discounted) net benefits of saving and if (2) income expectations turn credit use into a means of smoothing out lifetime income. The possibility that consumers would forgo acquisitions entirely has largely been neglected.

Instead of viewing credit and saving as two explicit sides of the same coin, other – in particular, psychological – contributions focused on these decisions in isolation (for reviews see, for example, Lunt and Livingstone 1991; Berthoud and Kempson 1992; Groenland 1999; Kamleitner and Kirchler 2007; Kamleitner et al. 2012; Webley 2014). The propensity for credit use varies as a function of the product; with it being particularly acceptable for durable goods and investment products (for example, Engel et al. 1993; Prelec and Loewenstein 1998). This, however, only holds for those forms of credit that make the borrowing process salient. It does not hold for cases in which consumers are not fully aware that they are borrowing money and do so spontaneously or habitually, such as in the case of credit card usage (for instance, Lo and Harvey 2011; Thomas et al. 2011). For example, while people would mostly be averse to taking out a loan for a holiday, they may use their credit cards to do so without a second thought. This variability in decisions across credit vehicles is a fundamental factor in credit decisions. It is one of

the main reasons why research on credit use, including reviews (for example, Kamleitner et al. 2012), tends to focus on specific credit vehicles.

Saving decisions are less influenced by variability in terms of saving vehicles. In these decisions time horizons play a major role (Fisher and Montalto 2010; Rabinovich and Webley 2007). The more proximate a saving goal feels, the more likely people are to decide to save (for example, Hershfield et al. 2011 increased saving by using age-progressed renderings of participants). Whether a saving goal feels proximate and within reach is also a matter of the nature of this goal (for example, Canova et al. 2005; Ülkümen and Cheema 2011). People save for concrete (for example, a new car) and unspecific (for example, for a rainy day) purposes alike. The nature of saving goals is one of the key factors determining whether consumers can eventually implement saving decisions (for example, Rabinovich and Webley 2007).

3.3 Investment Decisions

Investment decisions are similar to saving decisions in that money is put aside for a future purpose. In abstract terms, the purpose, however, is not variable. The aim is wealth protection and accumulation rather than acquisition and usage. This goal can be achieved by investing in a wide range of investment vehicles which have to be purchased. Investment thus follows a similar process to extensive spending decisions. However, given that products are chosen because of their monetary value, potential fluctuations in value, that is, the perception of risks, move center stage. Consequently, risk preferences, that is, the extent of risk a person feels comfortable with, are a key determinant of the choice between investment options (for example, Dimmock and Kouwenberg 2010; Sachse et al. 2012). Notably, risk preferences may not always translate into adequate product choice. This is because risk perception is prone to biases. For example, when simultaneously focusing on potential gains and losses, the loss probability may sometimes be underestimated, yielding riskier decisions than intended (Diacon 2004).

Another factor that sets investment decisions apart is that decisions often concern portfolios rather than individual options. Such ‘diversification’ makes it possible to balance the inherent risk of several products against each other. Similarly, time horizon takes on a special meaning in investment contexts. The general assumption is that longer investment horizons reduce the risk of losses (but see, for example, Strong and Taylor 2001 for results that do not entirely support this assumption). It is, however, not entirely clear whether decision makers truly understand the consequences of time horizons and diversification. Most evidence suggests that people struggle to fully understand the extent of these effects. For example, Goetzmann and Kumar (2008) find that a surprisingly high number of investors (75 percent) hold under-diversified portfolios that entail worse risk–return trade-offs than benchmark market portfolios (for example, the S&P 500 containing stock values of the 500 biggest US companies).

3.4 Money Management

People need to manage the funds available for all these decisions to be made. To a large extent this happens mentally. Thaler (1985) hence coined the term ‘mental accounting’. In several experiments he found that people establish so called mental accounts to keep

track of their expenditures within a specific time period and/or for a specific purpose. Mental accounts (for example, €100 per month for eating out) are useful rules of thumb for budgeting and tracing available funds. Mental accounting, thus, can help to decide between competing usages of funds and acts as a self-control mechanism (Thaler 1980, 1999). However, these advantages do not hold universally. Mental accounts can equally be malleable and self-delusional (Cheema and Soman 2006; Shafir and Thaler 2006). For example, habitual expenditures such as the daily cup of coffee may be booked into a vague 'other spending' account and people can trick their own mental system by reframing decisions; for example, luxury goods can be 'booked' as 'investments' which justifies expenditures and turns eventual consumption 'free' of charge (Shafir and Thaler 2006).

Mental accounting is perhaps the most prevalent money management practice and it permeates and blends with all other financial decisions (for instance, Kamleitner and Hölzl, 2009). For example, in the case of loans consumers can mentally link the pleasure of consuming the acquired good and the pain of paying back the loan (for example, Prelec and Loewenstein 1998; Kamleitner et al. 2009). In case they establish such a mental link and 'book' pain and pleasure on the same account, debt aversion for non-durables (that is, products for which repayment may extend beyond the time of product use) becomes more likely (Prelec and Loewenstein 1998). What is more, mental accounts may influence the decision to save or borrow. If an acquisition does not fit well with a mental saving account, credit use may be preferred despite available savings (Karlsson et al. 1997).

Beyond mental, factual money management practices, such as the frequency with which accounts are checked or the amount of actual or symbolic accounts held, matter (Lea et al. 1995; Kidwell et al. 2003; Donnelly et al. 2012). Money management appears to be most effective when mental and factual practices align and reinforce each other (Kamleitner et al. 2011; Soman and Cheema 2011).

4 HOUSEHOLD FINANCIAL DECISIONS

The majority of insights on financial decisions regard individual decision makers. Yet, in reality, multiple household members may be involved in different ways (Kirchler et al. 2008). The question of whose needs are considered becomes as important as the question of how decisions about products are made. This opens the door for additional considerations such as relational power, relationship quality, and role stereotypes (for example, Kirchler 1988). It also puts a spotlight on formal practices such as money distribution and pooling by couples (for example, separate versus joint bank accounts in which partners' incomes are pooled).

In the following we briefly review key insights arising when the four financial decisions are viewed from a joint rather than individual decision makers' point before moving on to an analyses of when which viewpoint may be most appropriate.

4.1 Spending Decisions in the Household

Living together mostly implies that many products are acquired for the household rather than for individual household members. Individual and potentially conflicting preferences of household members as well as their relationships add complexity to the decision

process. Bizarrely, individual preferences tend to be stronger for everyday spending decisions than other financial decisions. Whereas most people are indecisive as to which kind of blue chip stock or bank bond they prefer, the color of a car or even the topping of a pizza can be a crucial test for a relationship.

Kirchler (1989) provided one of few household decision models that incorporates the dynamics found in most individual decision models as well as insights on decisions by couples (for example, Pollay 1968; Sheth 1974; Corfman 1987; Scanzoni and Polonko 1980). Similar to individual decisions, the decision process begins with the desire for a good by at least one of the partners. Product type, relational aspects (in particular, quality of and power in a relationship), and the impact of the decision on the relationship determine whether the ensuing decision is spontaneous, habitual or extensive; joint or individual. This last aspect, that is, the degree to which partners are involved, was the topic of interest in a seminal paper by Davis and Rigaux (1974). They provide a classification for household decisions that holds across all financial decisions. Basing their analyses on married couples, they distinguished between: (1) autonomous decisions by one of the spouses, (2) husband or wife dominated decisions, and (3) jointly made or syncratic decisions.

In particular, extensive decisions open up the potential for syncratic decisions because they enable the partners to become differentially involved in information search, the evaluation of alternatives, and the eventual decision.

Notably, a partner's involvement in a decision does not have to be active. Even if only one partner is in charge of a decision, he or she is likely to account for the assumed preferences¹ of the partner – even in an exploitative relationship (Maccoby 1986).

A key aspect in decisions for more than one person is the potential of disagreement and conflict. Multiple types of household conflict have been identified by Kirchler et al. (2001). Depending on the type of conflict the partners are more or less motivated to solve the problem in a way that either reduces the negative impact on their relationship or maximizes their benefit (Ben-Yoav and Pruitt, 1984).

Probability conflicts relate to judgments about objective truths and outcomes and the likelihood with which they will happen. For example, partners may agree about the social significance of an item and have similar design preferences. Yet, they may be finding the joint decision difficult because they hold different views on the quality of alternatives. In such probability conflicts, partners are not seeking to influence each other. Rather they are having an objective disagreement in which the crucial elements are items of information. Normative pressure is kept to the background.

The situation is very different for value conflicts for which there is no verifiably correct solution. Value conflicts exist if there are fundamental differences in goals and values between the partners. Purchasing decisions present a value conflict if partners have fundamental differences with regard to the symbolic power of a product rather than the specific features. Value conflicts are genuine conflict situations, in which partners try to persuade each other (March and Simon 1958; Madden 1982) or even impose their views on each other, using several influencing tactics (for an overview of commonly used tactics, see also Kirchler 1990).

The third type of conflict is distributional. A distributional conflict exists if the discussion revolves around the division of costs and benefits. Even if both partners are convinced that a particular product represents the optimal alternative and is desirable, so that

there is no value conflict, one partner may still argue against the purchase on the grounds that the product largely benefits the other partner or would mainly be used by them. In distributional conflicts, partners will try to reach a compromise using their negotiating skills. (Kirchler et al. 2001, p. 75). These types of conflicts can occur for all types of financial decisions, including credit and saving decisions.

4.2 Decisions about Credit Use and Saving in a Household

Research that looks at decisions about credit use and saving from a household perspective is scarce. Actual money management practices (for example, do partners hold individual credit cards) but also role specialization and quality of a relationship will influence the way a household saves and uses credit. For example, the breadwinner role affects credit card usage. Pahl (2008) has shown that an observed higher rate of credit card usage by the male partner disappears when employment status is taken into account.

4.3 Investment Decisions in the Household

Investment poses a particular challenge for joint decision making because partners' risk preferences are likely to diverge. In a study by Mazzocco (2004), only half of the examined couples held similar risk preferences. The question then arises of how couples come to a joint risk preference. As, for example, Abdellaoui et al. (2013) show, couples do not simply average their individual risk preferences. In one study the man had more influence initially, whereas the woman's influence rose over the course of investments (de Palma et al. 2011). This may match with insights by Meier et al. (1999) who found that the spouse believed to be more experienced had more influence on the decision.

The type of relationship also plays an important role. Decisions in egalitarian relationships are more likely to be autonomous and dominated by the female spouse than decisions in relationships with traditional attitudes toward marital roles (Meier et al. 1999). To some extent this may also be caused by differences in bargaining power (see Yilmazer and Lich 2015) which determines who of the partners has more say in terms of the risk taken.

4.4 Money Management in the Household

A purely mental money management system is unlikely to work for an entire household. Formal ways of managing the household finances have to be established and responsibilities have to be assigned. The answer to the question 'Who manages the household's finances?' is informed by marital and breadwinner roles, relationship satisfaction, power in the relationship, equity perceptions, and the meaning of money for each partner (for example, Jasso 1988; Burgoyne and Kirchler 2008).

The most common way in which households manage their money is through pooling (Pahl 2008) which refers to the uniting of both partners' income on a joint banking account. However, in blended and patchwork families (that is, couples that are in a new relationship after a divorce or separation, with at least one child from the previous relationship) an increase of the practice of separate banking accounts (Raijas 2011) and separate money management has been observed.

5 WHICH DECISIONS ARE MADE JOINTLY? AN EMPIRICAL INVESTIGATION

As this review has shown, financial decisions are complex phenomena – in particular when they are made jointly by household members. A crucial question therefore asks which decisions are being made jointly. Already in the 1970s Davis and Rigaux (1974) addressed this question. They investigated which product categories are decided upon primarily by one partner of a particular gender, autonomously by both partners, and jointly. In addition, they distinguished between the respective influence of partners across the different stages of a decision process (need recognition, information search and final decision). Results were reported in the so-called decision triangle (see Figure 19.2 for an exemplar with data from this study). The y-axis depicts whether, if any, of the partners dominates the decision (1 = male dominated to 3 = female dominated with 2 = joint decisions in the middle). The extent of role specialization is displayed on the x-axis. It reflects the percentage of participants stating that a specific phase has been decided on jointly. The phases of the decision process are displayed in form of a line flowing from problem recognition (rhomb) to information search (dot) to the final decision (triangle).

As discussed, the role of partners in the decision process is influenced by gender dynamics, breadwinner and marital roles and partners' bargaining power (for example, Burgoyne and Kirchler 2008). All of these aspects have seen at least some changes in the past decades (for example, Gere and Helwig 2012; Lewis and Sussman 2014). For instance, Pahl (2008) observed a decrease in the number of couples pooling their money.

Here we empirically examine the way decisions are made in all four domains of financial decisions. Moreover, we aim to capture what is and what may yet come. We assess the decision processes observed from parents as well as the ideal decision processes striven for by their children.

5.1 Sample and Procedure

Overall, 300 Austrian business students (mean age = 23.51 years, 54.7 percent female) participated in a laboratory-based survey on decision making in partnerships. Participants were first asked to report how 13 financial decisions were made by their parents. Subsequently, they reported on how they anticipated to make those decisions once they share a household with a partner. The target decisions were chosen so as to reflect all four areas of financial decision making. In addition, goods that had emerged as particularly prone to be decided on by the husband or wife in the original Davis and Rigaux study were used. For all 13 decisions participants were asked to indicate who (man, woman, jointly) would usually recognize the need for a product, who would search for information, and who would make the final decision.

To keep insights comparable with the original studies (for example, Negrusa and Orefice 2011 find some differences across couples' sexual orientations), only heterosexual relationships were taken into account. Controlling for the actual relationship status of students did not change results of students' anticipated decision roles.

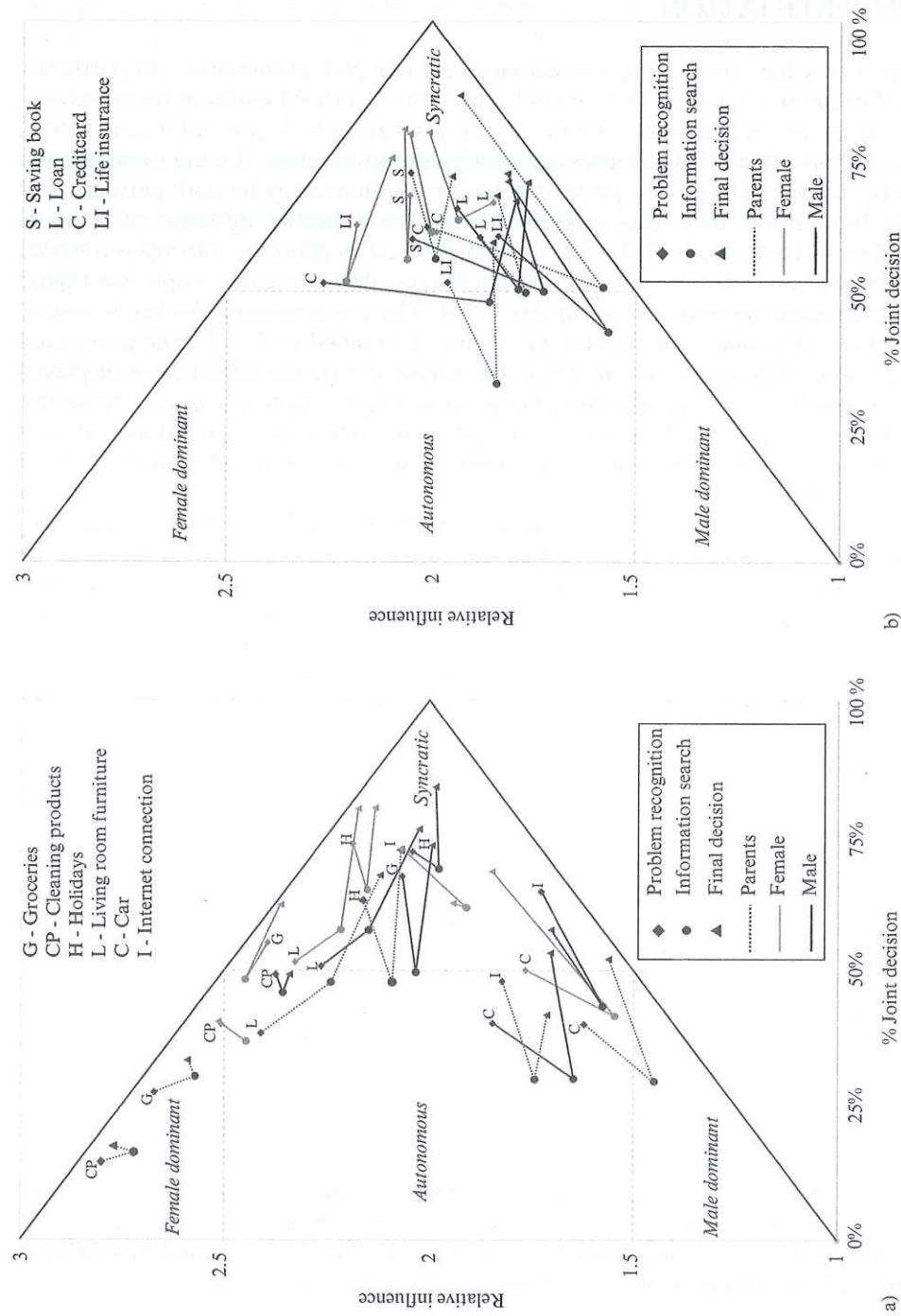


Figure 19.2 Observed (parents) and intended patterns of spending decisions (a) and saving and credit use (b) across genders

5.2 Results and Discussion

To facilitate interpretation of results and following Davis and Rigaux (1974), each role-triangle is separated into four sections: female-dominated decision steps are in the upper-right corner, male-dominated decisions in the lower-right corner, autonomous decisions that are equally likely to be independently taken by either of the partners are in the middle of the triangle and truly syncratic (or joint) decisions are in the outer-right corner of the triangle. The discussion of results has been split according to the four financial decisions.

5.2.1 Decision roles involved in spending decisions

Figure 19.2a shows parents' observed actual (dotted line) and students' ideal (grey for females and black for males) decision processes for seven different spending decisions. Focusing on parents' decision processes, it becomes evident that, as already observed by Davis and Rigaux (1974), all four sections of the triangle are populated. As in the 1970s, cleaning products and groceries are still female dominated. Moreover, cars still tend to be male dominated, primarily during the phase of information search. Unlike in the 1970s, the decision for a car is likely to be made syncratic.

Getting an Internet connection seems to be the task for either one of the partners. Despite being a technological topic it is not necessarily male dominated. The decision about living room furniture is autonomous during problem recognition and information search, but the final decision is made jointly. The decision process about which holidays to go on is similar to that for furniture. However, for holidays, problem recognition appears more likely to be a joint process.

In sum, reports on parents' spending decisions are similar to those observed in earlier research (Davis and Rigaux 1974). The final decision, however, seems to have become more syncratic. Interestingly, the stereotypical female domains have remained untouched but the male domains have made some way for joint decisions.

Moving on to how students described the way they anticipate making decisions in their own future households, a glance at Figure 19.2a proves revealing. First, the fact that the black lines tend to be lower in the graph than the grey lines suggests that each gender assigns itself slightly more say in decisions. The perhaps surprising exception is cars. At least when it comes to information search, many women appear happy to leave that task to their future partner.

Second, ideals cluster more strongly in the syncratic section of the triangle. This suggests that students intend to make less autonomous and gender-dominated decisions than observed by their parents. In fact, students' ideals see barely any autonomous decisions. Cleaning products are the only product category for which both genders expect that one person will decide it all.

5.2.2 Decision roles involved in credit use and saving

Figure 19.2b depicts decision roles for credit (credit cards and loans) and saving (saving book and life insurance) decisions. It shows that students' ideals and parents' reality tend to crowd together in the syncratic section of the decision triangle. Even the decision about a product focusing on one individual's life, that is, life insurance, has become more syncratic than in the 1970s. It is only during the information search that one of the partners is in charge.

Overall, female ideals are clearly syncratic across all decision phases. Male ideals and parents' actual behaviors are also mostly syncratic except for the information search phase in which they are situated at the edge to autonomous decisions.

5.2.3 Decision roles involved in investment decisions

Figure 19.3a shows decision patterns for investment decisions in general and stock in particular. A first glimpse reveals that investment decisions are more prone to be made autonomously (specifically during problem recognition and information search) than saving and credit decisions. While both partners appear to recognize the need to save or borrow, recognizing the need to invest seems often to be down to one of the partners.

Moreover, Figure 19.3a reveals that the general decision to invest is more likely to be syncratic than the decision about stocks as an actual investment vehicle. In particular for men, the decision to acquire stocks seems to lie in their domain. Women generally expect to have more influence on investment decisions than either their mothers have or their male colleagues and potential future partners anticipate.

Results suggest that couples are likely to decide on an investment strategy jointly but that the choice for a high-risk investment product may be male dominated; in particular in the perception of men themselves.

5.2.4 Decision roles involved in money management

Figure 19.3b depicts decision patterns with regard to money management. Participants were asked to indicate who would express the need to decide on whether to pool the respective funds available, who would think about possible distributions of money, and who finally decides which kind of distribution is implemented.

Interestingly, in this decision process parents are observed to decide more syncratically than their adult sons' intent to do. Parents were observed to, and female participants would like to, jointly go through all decision stages. Male participants differ in that they consider problem recognition and information search as the domain of only one of the partners.

6 CONCLUSION

These results provide a glimpse at contemporary financial decision making in the household and reveal some general patterns across the four main areas of financial decision making: spending decisions, saving and credit use, investment, and money management. Despite increasing degrees of financial autonomy of the spouses, most financial decisions tend to be made jointly and the future generation intends to further increase this trend. Notably, this intention differs across the genders. In particular with respect to decisions that involve money only (that is, money management, investment, saving and credit use), male students anticipate that the decision process would be more autonomous than female participants. It is only with regard to spending decisions, that is, decisions that involve non-financial products, that female participants considered autonomous decisions at least as likely as their male counterparts. Given substantial variations in the ways that decisions are made across contexts, knowledge about individual decisions is as necessary as it is limited in order to understand financial decision making in the household.

Admittedly, there is no way to know whether our samples' intended practices will reflect

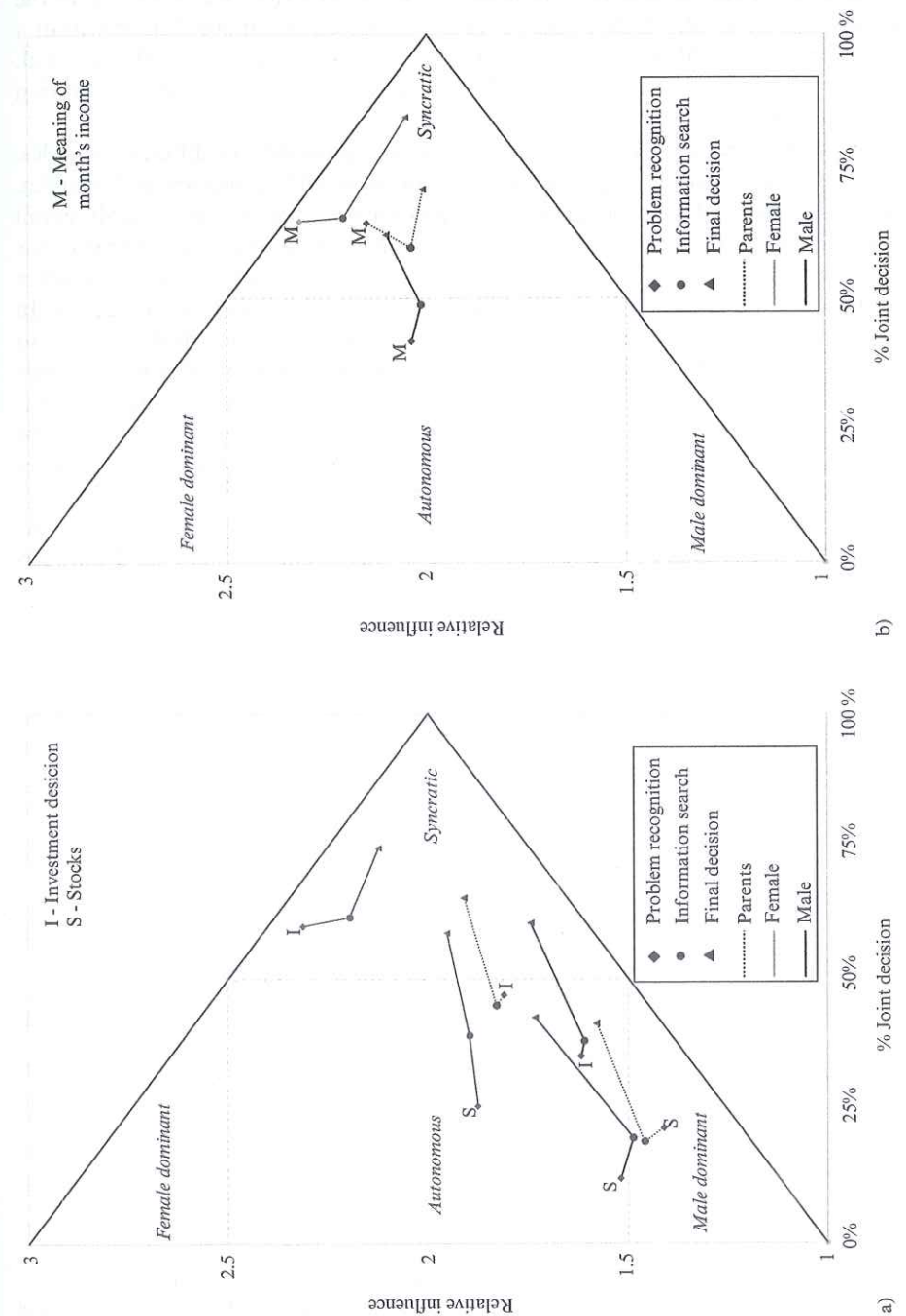


Figure 19.3 Observed (parents) and intended patterns of investment decisions (a) and money management decisions (b) across genders

their decision making once they have been sharing a household with a partner for some time. The lack of longitudinal insights is, however, not a limitation that is specific to the study at hand. There is very little evidence on how decision dynamics change within a relationship (for cross-sectional evidence on couples' dynamics, see Scheibehenne et al. 2011) and on the extent to which a potentially observed change is due to the maturation of the relationship and societal trends, respectively.

Although we have no means of ensuring that results generalize to different samples, they do hold an important message. The increase in financial independence of women, which has been observed in many industrialized countries, does not necessarily entail more autonomous financial decisions. In fact, nearly all stereotypical financial decisions were deemed syncratic and this appears to be an aspired practice by the future generation of (well-educated) households. The only exception appears to be spending decisions; in particular about everyday goods and services. Yet, even for groceries, students seem to aspire to joint decisions. However, whether this is a valid prediction of what will be practiced in the future remains to be seen. This finding may be the result of romantic expectations of limitless 'togetherness' or of a generally perceived choice overload. Given that many goods and services (including financial services) are marketed to individuals rather than couples there seems to be a mismatch between what is offered and what is actually needed by households. Especially the differential influence across the three stages of the decision process, in particular the tendency to search autonomously, may hold implications for marketers.

Our results also imply a noteworthy asymmetry between the factors that likely matter to decision makers and the factors that occupy decision researchers. A short glimpse into the latest issues of journals such as the *Journal of Consumer Research*, the *Journal of Economic Psychology*, and *Judgment and Decision Making* suffices to reveal that most disciplines involved in the study of financial decision making tend to overlook the fact that decisions happen on a household as well as on an individual level.

Topics inherent to household-level decisions such as relationship quality, power, resource distribution, gender dynamics, and conflicts may be more relevant than ever before. It seems high time that academic research on financial decisions systematically considers (and asks) who is making them.

NOTE

- Note that couples do not tend to be good at making these predictions and that the ability to predict a partner's preferences does not improve with relationship duration (Scheibehenne et al. 2011).

REFERENCES

- Abdellaoui, M., O. l'Haridon and C. Paraschiv (2013), 'Individual vs. couple behavior: an experimental investigation of risk preferences', *Theory and Decision*, **75** (2), 175–91.
- Ashby, J.S., I. Schoon and P. Webley (2011), 'Save Now, save later?', *European Psychologist*, **16** (3), 227–37.
- Ben-Yoav, O. and D.G. Pruitt (1984), 'Accountability to constituents: a two-edged sword', *Organizational Behavior and Human Performance*, **34** (3), 283–94.
- Berthoud, R. and E. Kempson (1992), *Credit and Debt: The PSI Report*, London: Policy Studies Institute.
- Borcherding, K. (1983), 'Entscheidungstheorie und Entscheidungshilfverfahren für komplexe Entscheidungssituationen' ('Decision theory and decision aids for complex decision situations'), in M. Irle and W. Bussmann (eds), *Methoden und Anwendungen in der Marktpsychologie (Methods and Applications in Market Psychology)*, vol. 2, Göttingen: Hogrefe, pp. 64–173.
- Burgoyne, C.B. and E. Kirchler (2008), 'Financial decision in the household', in A. Lewis (ed.), *The Cambridge Handbook of Psychology and Economic Behaviour*, Cambridge: Cambridge University Press, pp. 132–54.
- Canova, L., A.M.M. Rattazzi and P. Webley (2005), 'The hierarchical structure of saving motives', *Journal of Economic Psychology*, **26** (1), 21–34.
- Cheema, A. and D. Soman (2006), 'Malleable mental accounting: the effect of flexibility on the justification of attractive spending and consumption decisions', *Journal of Consumer Psychology*, **16** (1), 33–44.
- Corfman, K.P. (1987), 'Group decision-making and relative influence when preferences differ: a conceptual framework', in E.C. Hirschman and J. Sheth (eds), *Research in Consumer Behavior*, vol. 2, Greenwich, CT: JAI Press, pp. 223–57.
- Davis, H. and B. Rigaux (1974), 'Perception of marital roles in decision processes', *Journal of Consumer Research*, **1** (1), 51–62.
- De Palma, A., N. Picard and A. Ziegelmeyer (2011), 'Individual and couple decision behavior under risk: evidence on the dynamics of power balance', *Theory and Decision*, **70** (1), 45–64.
- Diacon, S. (2004), 'Investment risk perceptions', *International Journal of Bank Marketing*, **22** (3), 180–99.
- Dimmock, S.G. and R. Kouwenberg (2010), 'Loss-aversion and household portfolio choice', *Journal of Empirical Finance*, **17** (3), 441–59.
- Donnelly, G., R. Iyer and R.T. Howell (2012), 'The Big Five personality traits, material values, and financial well-being of self-described money managers', *Journal of Economic Psychology*, **33** (6), 1129–42.
- Duesenberry, J.S. (1949), *Income, Saving and the Theory of Consumer Behavior*, Cambridge, MA: Harvard University Press.
- Dvorak, T. and H. Hanley (2010), 'Financial literacy and the design of retirement plans', *Journal of Socio-Economics*, **39** (6), 645–52.
- Engel, J.F., R.D. Blackwell and P.W. Miniard (1993), *Consumer Behavior*, Fort Worth, TX: Dryden Press.
- Engel, J.F., R.D. Blackwell and P.W. Miniard (2007), *Consumer Behavior*, 10th edn, Fort Worth, TX: Dryden Press.
- Ferber, R. (1973), 'Family decision making and economic behavior', in E. Sheldon (ed.), *Family Economic Behaviour*, Philadelphia, PA: Lippincott, pp. 29–61.
- Fisher, P.J. and C.P. Montalto (2010), 'Effect of saving motives and horizon on saving behaviors', *Journal of Economic Psychology*, **31** (1), 92–105.
- Gere, J. and C.C. Helwig (2012), 'Young adults' attitudes and reasoning about gender roles in the family context', *Psychology of Women Quarterly*, **36** (3), 301–13.
- Goetzmann, W.N. and A. Kumar (2008), 'Equity portfolio diversification', *Review of Finance*, **12** (3), 433–63.
- Groenland, E.A.G. (1999), 'Saving', in P.E. Earl and S. Kemp (eds), *The Elgar Companion to Consumer Research and Economic Psychology*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar, pp. 516–24.
- Hershfield, H.E., D.G. Goldstein, W.F. Sharpe, J. Fox, L. Yeykelis, L.L. Carstensen and J.N. Bailenson (2011), 'Increasing saving behavior through age-progressed renderings of the future self', *Journal of Marketing Research*, **48** (special issue), 23–37.
- Howard, J. and J.N. Sheth (1969), *The Theory of Buyer Behavior*, New York: Wiley.
- Jasso, G. (1988), 'Employment, earnings, and marital cohesiveness: an empirical test of theoretical predictions', in M. Webster and M. Foschi (eds), *Status Generalization. New Theory and Research*, Stanford, CA: Stanford University Press, pp. 123–61.
- Kamleitner, B. and E. Hölzl (2009), 'Cost–benefit associations and financial behavior', *Applied Psychology: An International Review*, **58** (3), 435–52.
- Kamleitner, B. and E. Kirchler (2007), 'Consumer credit use: a process model and literature review', *Revue Européenne de Psychologie Appliquée/European Review of Applied Psychology*, **57** (4), 267–83.
- Kamleitner, B., E. Hoelzl and E. Kirchler (2009), 'Cost–benefit associations and their influence on loan experience', in A.L. McGill and S. Shavitt (eds), *Advances in Consumer Research*, vol. 36, Duluth, MN: Association for Consumer Research, pp. 607–98.
- Kamleitner, B., E. Hoelzl and E. Kirchler (2012), 'Credit use: psychological perspectives on a multifaceted phenomenon', *International Journal of Psychology*, **47** (1), 1–27.
- Kamleitner, B., B. Hornung and E. Kirchler (2011), 'Over-indebtedness and the interplay of factual and mental money management: an interview study', *New Zealand Economic Papers*, **45** (1), 139–60.
- Karlsson, N., T. Gärling and M. Selart (1997), 'Effects of mental accounting on intertemporal choice', *Göteborg Psychological Reports*, **27** (5), 1–17.
- Kidwell, B., D. Brinberg and R. Turrissi (2003), 'Determinants of money management', *Journal of Applied Social Psychology*, **33** (6), 1244–60.

- Kirchler, E. (1988), 'Diary reports on daily economic decisions of happy versus unhappy couples', *Journal of Economic Psychology*, **9** (3), 327–57.
- Kirchler, E. (1989), *Kaufentscheidungen im privaten Haushalt (Purchase Decisions in the Private Household)*, Göttingen: Hogrefe.
- Kirchler, E. (1990), 'Spouses' influence strategies in purchase decisions as dependent on conflict type and relationship characteristics', *Journal of Economic Psychology*, **11** (1), 101–18.
- Kirchler, E., E. Hoelzl and B. Kamleitne (2008), 'Spending and credit use in the private household', *Journal of Socio-Economics*, **37** (2), 519–32.
- Kirchler, E., E. Hözl, K. Meier and C. Rodler (2001), 'Editorial', *Zeitschrift für Sozialpsychologie*, **32**, 129–32.
- Kotler, P. (1982), *Marketing-Management: Analyse, Planung und Kontrolle*, Stuttgart: Poeschel.
- Kouchaki, M., K. Smith-Crowe, A.P. Brief and C. Sousa (2013), 'Seeing green: mere exposure to money triggers a business decision frame and unethical outcomes', *Organizational Behavior and Human Decision Processes*, **121** (1), 53–61.
- Kroeber-Riel, W. (1992), *Konsumentenverhalten (Consumer Behavior)*, 5th edn, Munich: Vahlen.
- Lea, S.E.G., P. Webley, and C.M. Walker (1995), 'Psychological factors in consumer debt: money management, economic socialization, and credit use', *Journal of Economic Psychology*, **16** (4), 681–701.
- Lewis, R.A. and M.B. Sussman (2014), *Men's Changing Roles in the Family*, London: Routledge.
- Lo, H.-Y. and N. Harvey (2011), 'Shopping without pain: compulsive buying and the effects of credit card availability in Europe and the Far East', *Journal of Economic Psychology*, **32** (1), 79–92.
- Lunt, P.K. and S.M. Livingstone (1991), 'Psychological, social and economic-determinants of saving – comparing recurrent and total savings', *Journal of Economic Psychology*, **12** (4), 621–41.
- Lusardi, A. and O.S. Mitchell (2007), 'Baby boomer retirement security: the roles of planning, financial literacy, and housing wealth', *Journal of Monetary Economics*, **54** (1), 205–24.
- Maccoby, E.E. (1986), 'The parent child relationship: An analysis of influence process', paper presented at the Third International Conference on Personal Relationships, 6–11 July, Herzlia, Israel.
- Madden, C.S. (1982), 'The effect of conflict awareness on interspousal decision making in highly involving purchases', unpublished dissertation, University of Nebraska (Lincoln), Lincoln, NE.
- March, J.G. and H.A. Simon (1958), *Organizations*, New York: Wiley.
- Mazzocco, M. (2004), 'Saving, risk sharing, and preferences for risk', *American Economic Review*, **94** (4), 1169–82.
- Meier, K., E. Kirchler and A.-C. Hubert (1999), 'Savings and investment decisions within private households: spouses' dominance in decisions on various forms of investment', *Journal of Economic Psychology*, **20** (5), 499–519.
- Modigliani, F. (1966), 'The life cycle hypothesis, the demand for wealth, and the supply of capital', *Social Research*, **33** (2), 160–217.
- Negrusa, B. and S. Orefice (2011), 'Sexual orientation and household financial decisions: evidence from couples in the United States', *Review of Economics of the Household*, **9** (4), 445–63.
- Nicosia, F.M. (1966), *Consumer Decision Processes*, Englewood Cliffs, NJ: Prentice Hall.
- Norvilitis, J.M., M.M. Merwin, T.M., Osberg, P.V. Roehling, P. Young and M.M. Kamas (2006), 'Personality factors, money attitudes, financial knowledge, and credit-card debt in college students', *Journal of Applied Social Psychology*, **36** (6), 1395–413.
- Pahl, J. (2008), 'Family finances, individualisation, spending patterns and access to credit', *Journal of Socio-Economics*, **37** (2), 577–91.
- Pollay, R.W. (1968), 'A model of family decision making', *European Journal of Marketing*, **2** (3), 206–16.
- Prelec, D. and G. Loewenstein (1998), 'The red and the black: mental accounting of savings and debt', *Marketing Science*, **17** (1), 4–28.
- Pyone, J.S. and A.M. Isen (2011), 'Positive affect, intertemporal choice, and levels of thinking: increasing consumers' willingness to wait', *Journal of Marketing Research*, **48** (3), 532–43.
- Rabinovich, A. and P. Webley (2007), 'Filling the gap between planning and doing: psychological factors involved in the successful implementation of saving intention', *Journal of Economic Psychology*, **28** (4), 444–61.
- Raijas, A. (2011), 'Money management in blended and nuclear families', *Journal of Economic Psychology*, **32** (4), 556–63.
- Sachse, K., H. Jungermann and J.M. Belting (2012), 'Investment risk – the perspective of individual investors', *Journal of Economic Psychology*, **33** (3), 437–47.
- Scanzoni, J. and K. Polonko (1980), 'A conceptual approach to explicit marital negotiation', *Journal of Marriage and the Family*, **42** (1), 31–44.
- Scheibehenne, B., J. Mata and P.M. Todd (2011), 'Older but not wiser – predicting a partner's preferences gets worse with age', *Journal of Consumer Psychology*, **21** (2), 184–91.
- Shafir, E. and R.H. Thaler (2006), 'Invest now, drink later, spend never: on the mental accounting of delayed consumption', *Journal of Economic Psychology*, **27** (5), 694–712.
- Shefrin, H.M. and R.H. Thaler (1988), 'The behavioral life-cycle hypothesis', *Economic Inquiry*, **26** (4), 609–43.
- Sheth, J.N. (1974), 'A theory of family buying decisions', in J.N. Sheth (ed.), *Models of Buyer Behavior: Conceptual, Quantitative, and Empirical*, New York: Harper & Row.
- Soman, D. and A. Cheema (2011), 'Earmarking and partitioning: increasing saving by low-income households', *Journal of Marketing Research*, **48** (special issue), S14–S22.
- Strong, N. and N. Taylor (2001), 'Time diversification: empirical tests', *Journal of Business Finance & Accounting*, **28** (3–4), 263–302.
- Thaler, R.H. (1980), 'Toward a positive theory of consumer choice', *Journal of Economic Behavior & Organization*, **1** (1), 39–60.
- Thaler, R.H. (1985), 'Mental accounting and consumer choice', *Marketing Science*, **4** (3), 199–214.
- Thaler, R.H. (1999), 'Mental accounting matters', *Journal of Behavioral Decision Making*, **12** (3), 183–206.
- Thomas, M., K.K. Desai and S. Seenivasan (2011), 'How credit card payments increase unhealthy food purchases: visceral regulation of vices', *Journal of Consumer Research*, **38** (1), 126–39.
- Ülkümen, G. and A. Cheema (2011), 'Framing goals to influence personal savings: the role of specificity and construal level', *Journal of Marketing Research*, **48** (6), 958–69.
- Van Rooij, M., A. Lusardi and R. Alessie (2011), 'Financial literacy and stock market participation', *Journal of Financial Economics*, **101** (2), 449–72.
- Vohs, K.D., N.L. Mead and M.R. Goode (2008), 'Merely activating the concept of money changes personal and interpersonal behavior', *Current Directions in Psychological Science*, **17** (3), 208–12.
- Webley, P. (2014), 'The development of saving', in S. Preston, M.L. Kringelbach and B. Knutson (eds), *The Interdisciplinary Science of Consumption*, Cambridge, MA: MIT Press, pp. 243–62.
- Yilmazer, T. and S. Lich (2015), 'Portfolio choice and risk attitudes: a household bargaining approach', *Review of Economics of the Household*, **13** (2), 219–41.

Handbook of Behavioural Economics and Smart Decision-Making

Rational Decision-Making within the Bounds of Reason

Edited by

Morris Altman

*Professor of Behavioural and Institutional Economics and Dean and Head,
Newcastle Business School, University of Newcastle, Australia*

EE Edward Elgar
PUBLISHING

Cheltenham, UK • Northampton, MA, USA

© Morris Altman 2017

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical or photocopying, recording, or otherwise without the prior permission of the publisher.

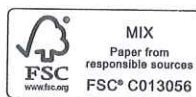
Published by
Edward Elgar Publishing Limited
The Lypiatts
15 Lansdown Road
Cheltenham
Glos GL50 2JA
UK

Edward Elgar Publishing, Inc.
William Pratt House
9 Dewey Court
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

Library of Congress Control Number: 2016957242

This book is available electronically in the **Elgaronline**
Economics subject collection
DOI 10.4337/9781782549598



ISBN 978 1 78254 957 4 (cased)
ISBN 978 1 78254 959 8 (eBook)

Typeset by Servis Filmsetting Ltd, Stockport, Cheshire
Printed and bound in Great Britain by TJ International Ltd, Padstow

Contents

<i>List of contributors</i>	ix
<i>Foreword by Vernon L. Smith</i>	xix
<i>Acknowledgements</i>	xxi
1 Introduction to smart decision-making <i>Morris Altman</i>	1
PART I SMART DECISION-MAKERS, DIFFERENT TYPES OF RATIONALITY AND OUTCOMES	
2 Rational inefficiency: smart thinking, bounded rationality and the scientific basis for economic failure and success <i>Morris Altman</i>	11
3 Rational mistakes that make us smart <i>Nathan Berg</i>	43
4 Rational choice as if the choosers were human <i>Peter J. Boettke and Rosolino A. Candela</i>	68
5 Smart predictions from wrong data: the case of ecological correlations <i>Florian Kutzner and Tobias Vogel</i>	86
6 Heuristics: fast, frugal, and smart <i>Shabnam Mousavi, Björn Meder, Hansjörg Neth and Reza Kheirandish</i>	101
7 The beauty of simplicity? (Simple) heuristics and the opportunities yet to be realized <i>Andreas Ortmann and Leonidas Spiliopoulos</i>	119
8 Smart persons and human development: the missing ingredient in behavioral economics <i>John F. Tomer</i>	137
PART II ASPECTS OF SMART DECISION-MAKING	
9 Behavioral strategy at the frontline: insights and inspirations from the US Marine Corps <i>Mie Augier</i>	157
10 Feminist economics for smart behavioral economics <i>Siobhan Austen</i>	173

vi	<i>Handbook of behavioural economics and smart decision-making</i>	
11	How regret moves individual and collective choices towards rationality <i>Sacha Bourgeois-Gironde</i>	188
12	Is it rational to be in love? <i>Paul Frijters and Gigi Foster</i>	205
13	Behavioral economic anthropology <i>Giuseppe Danese and Luigi Mittone</i>	233
PART III DEVELOPMENT AND GOVERNANCE		
14	Do changes in farmers' seed traits align with climate change? A case study of maize in Chiapas, Mexico <i>C. Leigh Anderson, Andrew Cronholm and Pierre Biscaye</i>	251
15	Rationality, globalization, and X-efficiency among financial institutions <i>Roger Frantz</i>	275
16	The evolution of governance structures in a polycentric system <i>Edward McPhail and Vlad Tarko</i>	290
PART IV TAX BEHAVIOUR		
17	Taxation and nudging <i>Simon James</i>	317
18	Income tax compliance <i>Erich Kirchler, Barbara Hartl and Katharina Gangl</i>	331
PART V SMART MACROECONOMICS AND FINANCE		
19	Financial decisions in the household <i>Bernadette Kamleitner, Till Mengay and Erich Kirchler</i>	349
20	Employing priming to shed light on financial decision-making processes <i>Doron Kliger</i>	366
21	Experimental asset markets: behavior and bubbles <i>Owen Powell and Natalia Shestakova</i>	375
22	To consume or to save: are we maximizing or what? <i>Tobias F. Rötheli</i>	392
PART VI DIMENSIONS OF HEALTH		
23	Time orientation effects on health behavior <i>Jannette van Beek, Michel J.J. Handgraaf and Gerrit Antonides</i>	413
24	Behavioral aspects of obesity <i>Odelia Rosin</i>	429

25	Time inconsistent preferences in intertemporal choices for physical activity and weight loss: evidence from Canadian health surveys <i>Nazmi Sari</i>	449
26	Suicide among smart people <i>Bijou Yang and David Lester</i>	464
PART VII SOCIOLOGICAL DIMENSIONS OF SMART DECISION-MAKING		
27	Seeing and knowing others: the impact of social ties on economic interactions <i>Astrid Hopfensitz</i>	479
28	Weakness of will and stiffness of will: how far are shirking, slackening, favoritism, spoiling of children, and pornography from obsessive-compulsive behavior? <i>Elias L. Khalil</i>	492
29	The role of identity, personal and social capital in community crime prevention <i>Ambrose Leung and Brandon Harrison</i>	515
30	Norms, culture, and cognition <i>Shinji Teraji</i>	526
PART VIII MORALS AND ETHICS		
31	Rational choice in public and private spheres <i>Herbert Gintis</i>	543
32	Ethics and simple games <i>Mark Pingle</i>	557
	<i>Index</i>	573