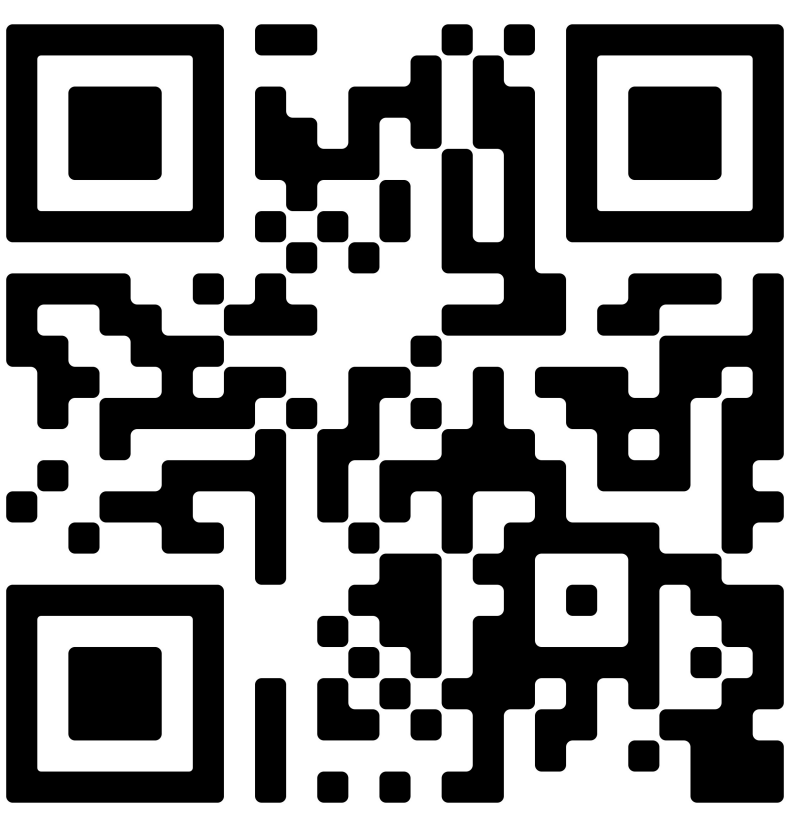




BEHAVIOURAL CONSEQUENCES AND INTERVENTION OF FINANCIAL SHOCKS

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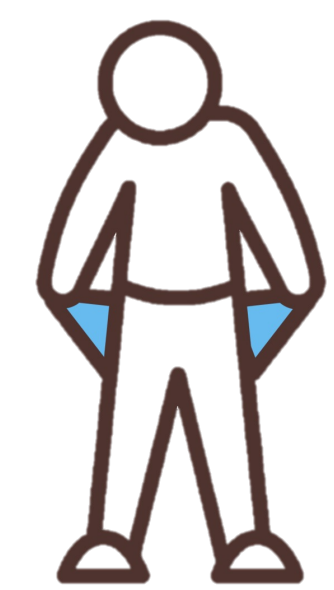


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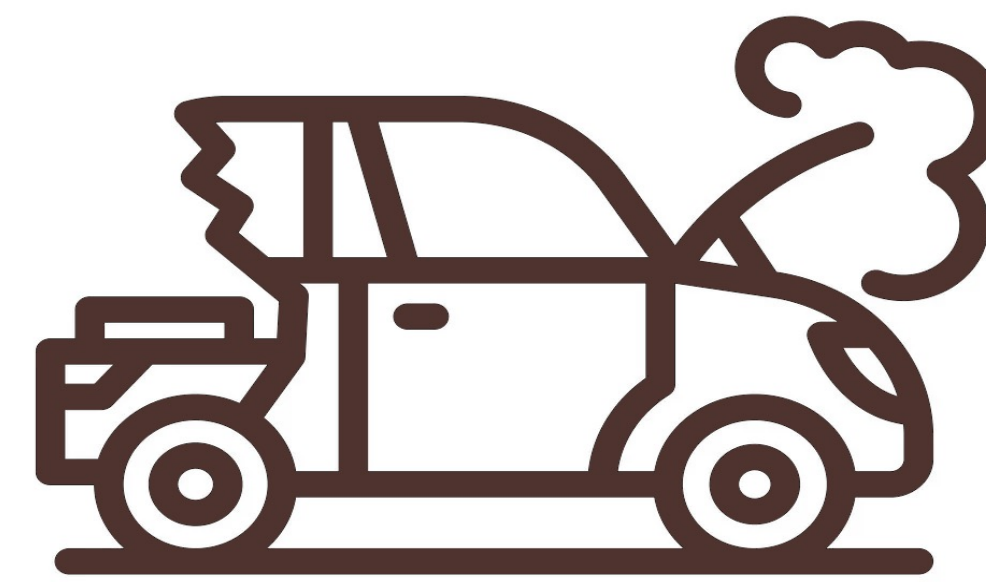
RESEARCH QUESTION

Research suggests a sudden loss of income may lead to different cognitive effects than a sudden unexpected expense. Further, self affirmation may mitigate the effects of these shocks.

How are income and expense shocks different and can we stop negative effects of these shocks through a self affirmation intervention?



INCOME SHOCKS
(e.g., one time pay cut)



EXPENSE SHOCKS
(e.g., car repair)

BACKGROUND

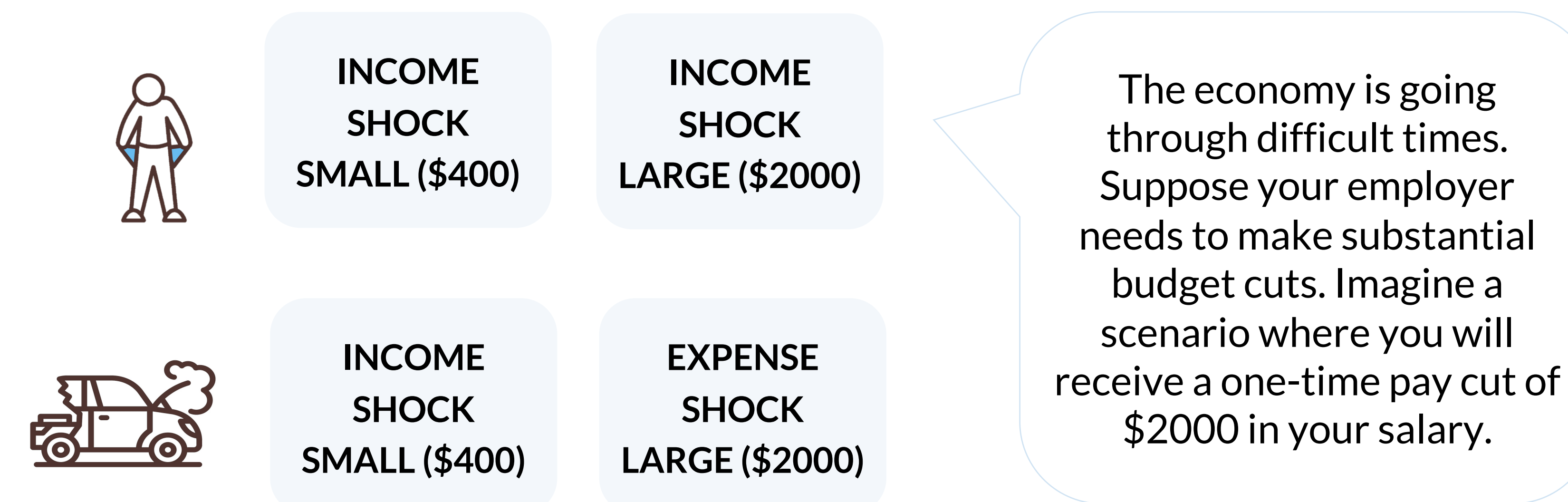
- Income shocks have become more prevalent due to new employment practices that decrease the predictability of work-time and earnings¹
- Yet most financial resilience survey research focuses on expense shocks relative to income shocks^{2,3}
- We aim to fill this knowledge gap by exploring differences in mental accounting in terms of how people perceive and respond to these shocks. We further aim to test the efficacy of a self-affirmation intervention to mitigate the effects of these shocks.

HYPOTHESES

- Income shocks will impose a **greater psychological transaction cost** than expense shocks.
- The self-affirmation intervention will **reduce the harmful effect of financial shocks**. Further, the beneficial impact will be greater for income shocks.

METHODS

Using a Qualtrics survey on MTurk, we randomly assigned participants to read one of four financial shock scenarios

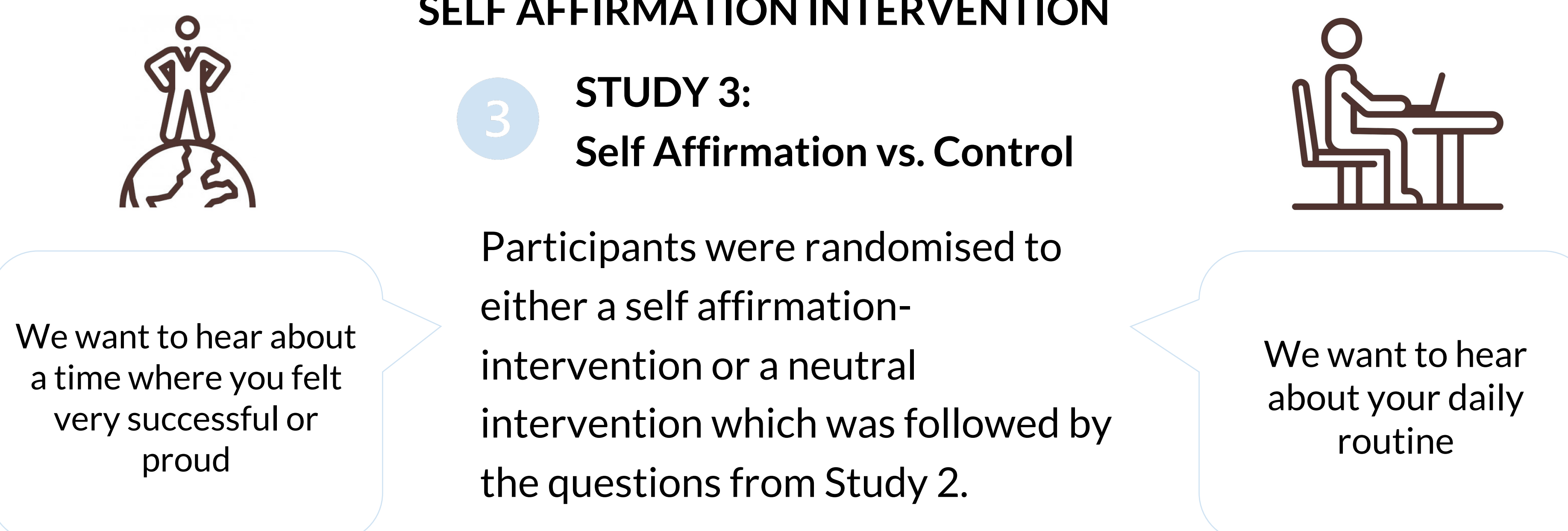


INCOME VS. EXPENSE

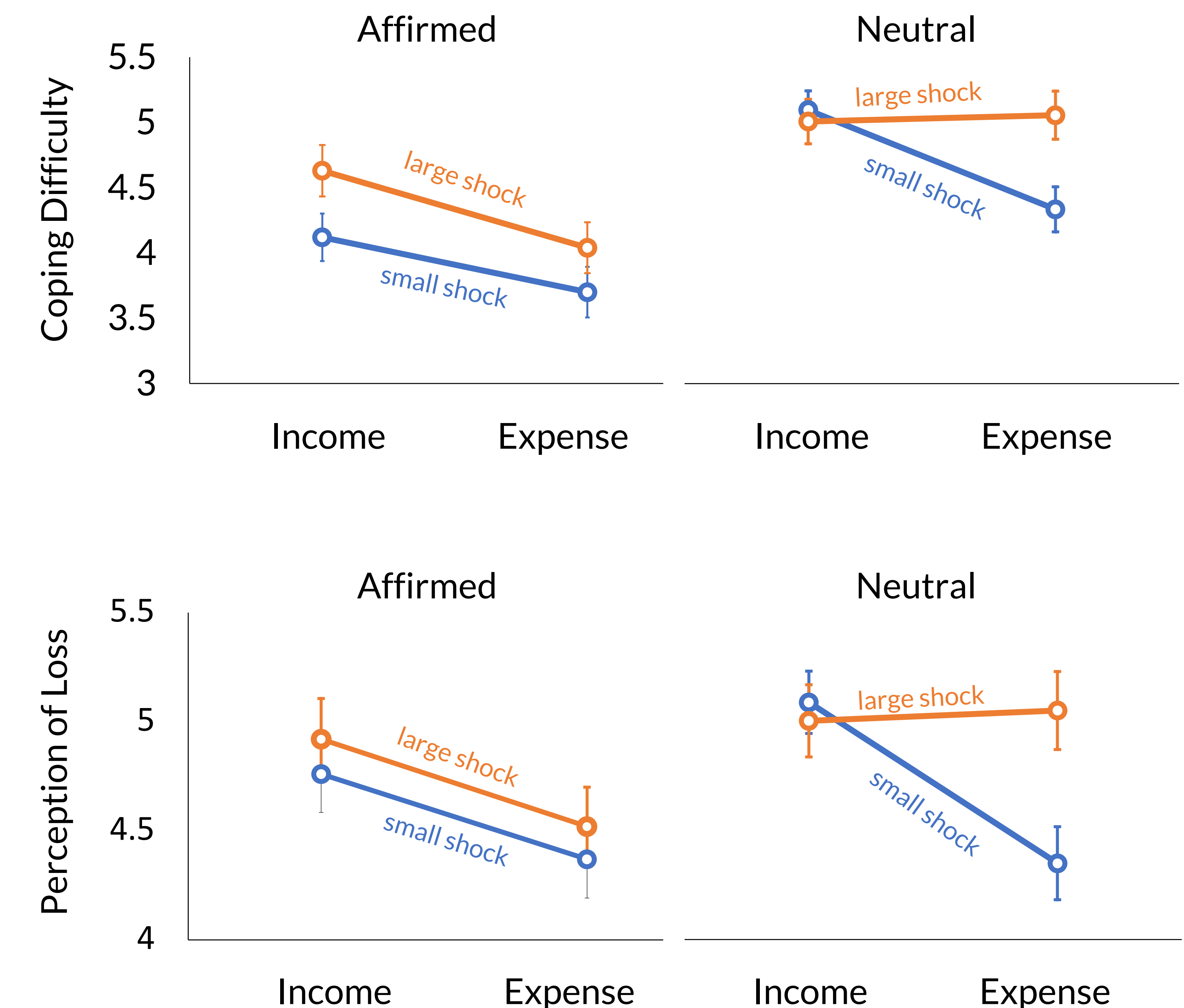
- STUDY 1: Coping Ability and Methods**
Asked their perceived ability to cope with the shock and to choose between methods of coping to manage the shock
- STUDY 2: Behavioural Consequences**
Using 7-point scales, investigated the effect on (1) coping difficulty, (2) life impact, (3) loss perception and (4) willingness to save.

Please rate how much you agree with the following statement.
"I feel like this is a pure loss for me"
1 2 3 4 5 6 7

SELF AFFIRMATION INTERVENTION



RESULTS



DISCUSSION

- Income shocks place a **greater psychological toll** than expense shocks.
- Specifically, income shocks relatively increase coping difficulty, impact on life and loss perception. There was effect on willingness to save.
- Self affirmation intervention can weaken the effects of shocks on coping difficulty and loss perception. This effect is greater for income shocks than expense shocks.

These findings will allow scholars and policy makers to **create targeted interventions for low-income individuals** and improve the financial resilience of U.S. and Canadian populations.

¹Henly and Lambert, 2014
²Larrimore et al., 2017
³Lusardi et al. 2017