



Introduction

- The *default effect* is the tendency for decision-makers (DMs) to stick with the option that has been pre-set as the default, rather than select any other option (i.e., opt-out)
- Ethical concerns have sparked interest in making defaults transparent to DMs¹ by explicitly informing them of the effect, the target behavior, or the default-setter’s motive^{2,3}
- Experiments testing the role of domain literacy on decision making suggest that low domain literacy DMs demonstrate larger default effects⁴
- While this finding has been framed positively, it may also leave low domain-literacy DMs more vulnerable to defaults that are not in their best interest (i.e., suboptimal defaults)

Research Questions

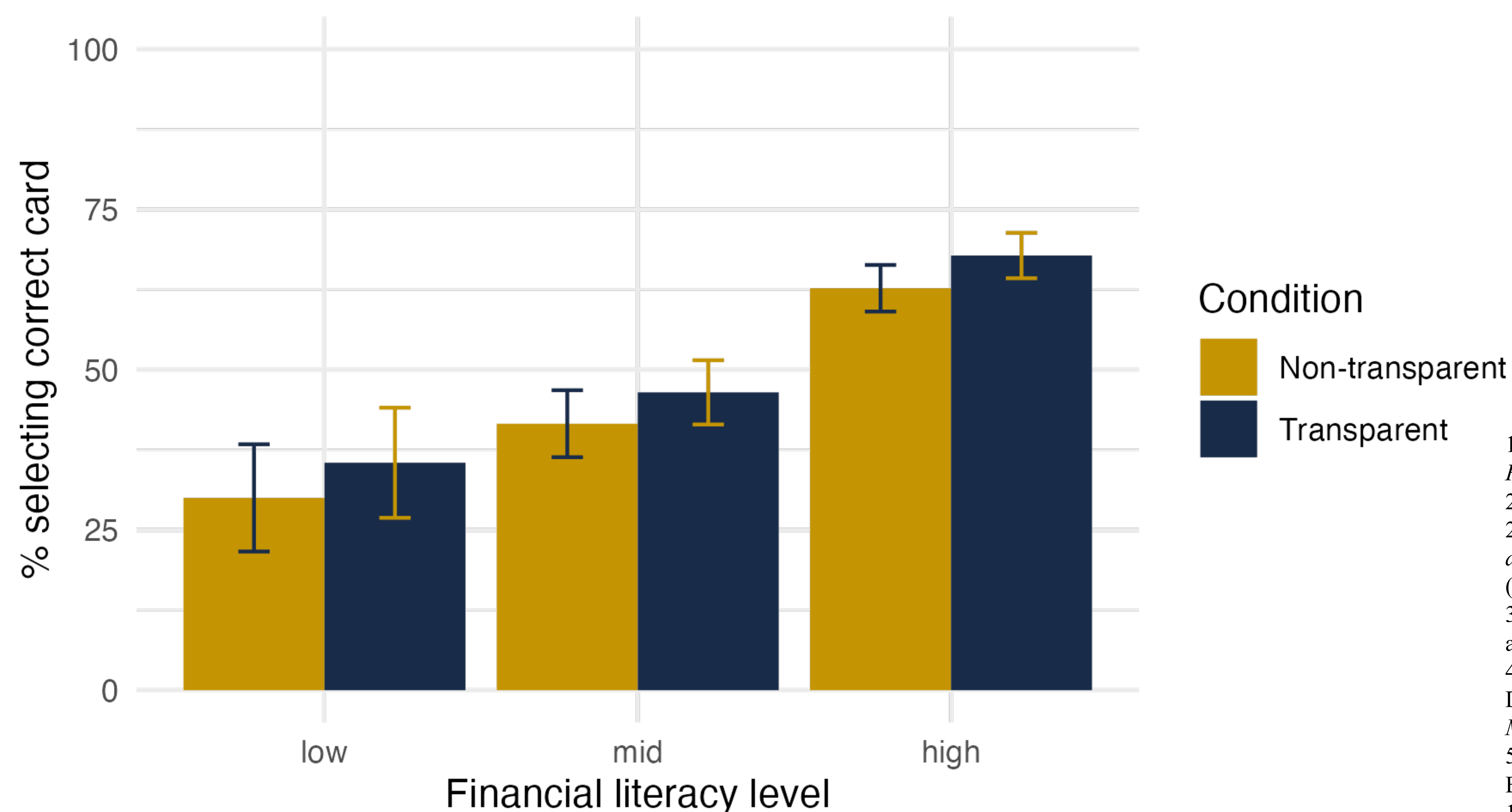
Q1: How might transparency affect opt-out rates of suboptimal defaults?

Q2: Might transparency mitigate domain literacy differences in accepting suboptimal defaults?

Methods

- Prolific participants (n = 600) were asked to imagine 1) selecting a new credit card from three options, each with a different APR and cash back rate, and 2) that they always paid off their balance in full⁴. The three credit card options were:
 - Default:** Ascent Card (15% APR; no cash back)
 - Distractor:** Trust Card (20% APR; 1% cash back)
 - Correct card:** Midnight Card (25% APR; 2% cash back)
- Participants were always defaulted into the same suboptimal card, the Ascent Card, given the cash back rates and their full monthly payment behavior (APR is irrelevant if balances are paid in full, so cash back rate should be maximized)
- Random assignment to one of two condition:
 - Non-transparent condition – Participants received default but no additional information
 - Transparent condition – Participants told “The Ascent Card has been preselected for you because of its low interest rate (APR). This low rate will reduce your interest payments owed if your balance is not fully paid each month.”
- Finally, participants completed a 13-item measure of financial literacy⁵, which we split into low (n = 61), mid (n = 188) and high (n = 351) at 4 and 8 items correctly answered

% selecting correct card - ternary split



Results

- We replicated the significant effect of domain literacy on selection of the correct credit card option ($p < .001$). In other words, high domain literate participants opted out of a suboptimal default at higher rates, while low domain literate participants accepted the suboptimal default at higher rates.
- Transparency increased selection of the optimal card option by almost 5% (53% to 57.6%), but this difference was not statistically significant ($p = .27$).
- Transparency decreased acceptance of the default suboptimal credit card by more than 5% (37.5% to 32.2%), but this difference was also not statistically significant ($p = .18$).

Conclusions

- We replicated the effect of domain literacy on selection of an optimal option, and opting out of a sub-optimal default, in a hypothetical financial decision
- Providing transparency to decision makers affected choice in the predicted direction, but the effect size was not statistically significant

References

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 2 - McKenzie, C.R.M, Leong, L., Kleiman-Lynch, L. *The effectiveness of transparent defaults depends on the nature of the transparency and how that transparency is revealed* (manuscript in prep)
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