Are the poor really so present-biased?
Evidence from a field experiment in Pakistan

Please contact the author for the latest draft

Rachel Cassidy*

February 20, 2017

Abstract

Measures of time preferences over money may be confounded by changes in poor individuals’ income over time, even when concerns about trust and arbitrage are mitigated. If so, the true extent of present-bias in financial decision-making may be lower than estimates suggest, if subjects are on average expecting to be less liquidity-constrained in the future and this biases estimates of present-bias upwards. This paper presents evidence of this effect from two cross-cutting field experiments in rural Pakistan. In the first experiment, subjects who receive a modest experimental windfall during their baseline session, rather than a follow-up session, are less likely to appear “present-biased” and more likely to appear “future-biased”. In the second experiment, subjects whose baseline session is randomly scheduled just after the wheat harvest, rather than just before, are much more likely to appear “time-consistent”. None of these effects operate via changing cognitive function or risk appetite, but rather appear to be pure effects of liquidity. This is consistent with a theoretical framework in which subjects rationally use experimental payments to smooth consumption over time, leading some subjects spuriously to appear “present-biased” when they are in fact anticipating a relaxation of their liquidity constraints.

*University of Oxford, Department of Economics and Centre for the Study of African Economies. Email: rachel.cassidy@economics.ox.ac.uk