

Spotlight 3

How well do we understand the contexts of poverty?

Behavioral economics has uncovered a number of surprising instances in which choices are influenced by factors that should seemingly be irrelevant, as chapters 1–3 have discussed (see also Kahneman and Tversky 1984; Kahneman 2010; Ariely 2008, 2010).

These small inconsistencies have often been revealed through people's responses to vignettes or hypothetical situations. These vignettes have been implemented mostly among samples of university students attending elite universities. Do these patterns reveal something universal about human decision making, or could these choices perhaps be a function of wealth, just as susceptibility to some visual illusions and preferences for fairness appear to be unique to certain societies (Henrich, Heine, and Norenzayan 2010)?

To find out, the *World Development Report 2015* team implemented a classic vignette from behav-

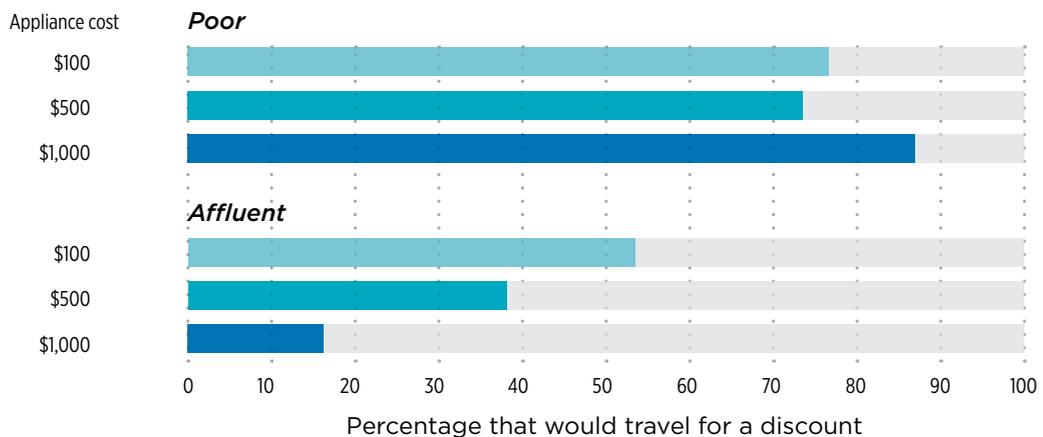
ioral economics among representative samples in three capital cities around the world (Jakarta, Indonesia; Nairobi, Kenya; and Lima, Peru) and among a sample of staff working at the World Bank.

The results suggest that the choices made by World Bank staff tend to replicate the choices made by university and affluent samples. The choices of people living in poor countries do not; their choices tend to mirror the choices of a sample of poor people in the United States.

Responses of poor and affluent people in New Jersey (United States)

In the United States, there is evidence that poor and affluent respondents do not use the same mental shortcuts (heuristics) when evaluating the benefit of a discount and that poorer respondents can

Figure S3.1 How poor and affluent people in New Jersey view traveling for a discount on an appliance



Source: Hall 2008.

Note: The discount was \$50.

make more consistent choices about the trade-off between money (or the discount) and time. In a study in New Jersey, for example, three groups of respondents were randomly assigned to read one of three variants of the following vignette, which differed solely in the total cost of an appliance that could be purchased:

Imagine that a friend goes to buy an appliance priced at \$100 (\$500, \$1,000). Although the store's prices are good, the clerk informs your friend that a store 45 minutes away offers the same item on sale for \$50 less. Would you advise your friend to travel to the other store to save \$50 on the \$100 (\$500, \$1,000) item?

The total cost of the appliance was irrelevant for poor respondents in a New Jersey soup kitchen when deciding whether they would advise traveling for a discount (Hall 2008). Each group made the same choice as other groups that had randomly received a different price. A sample of more affluent commuters at a train station, however, was significantly less likely to favor travel as the price of the appliance rose, consistent with findings from university students in the United States and Canada (Tversky and Kahneman 1981). This suggests that they focused on relative savings, instead of absolute savings. In every scenario, all respondents were contemplating the same trade-off: spending 45 minutes to save \$50. For the affluent sample, saving \$50 seemed like a better deal when the appliance was less expensive (see figure S3.1).

Responses of World Bank staff

For World Bank staff, the vignette was posed in terms of deciding whether to travel for a \$50 discount on a watch. Staff exhibited a pattern similar to the affluent samples of commuters and university students. Groups randomly receiving the more expensive variant were significantly less likely to say they would travel for a discount (see figure S3.2).

Responses of residents in Jakarta, Nairobi, and Lima

In Jakarta, Nairobi, and Lima, residents from various wealth groups answered a similar question about a cell phone. The choices of respondents in these cities much more closely resembled respondents' choices in the New Jersey soup kitchen.

In each city, respondents were stratified across three wealth groups—lower, middle, and upper—which corresponded to terciles defined by community averages for the poverty rate (Jakarta), assets (Nairobi), or consumption (Lima). Since these wealth groups were defined within each country, it is possible that even respondents from the upper groups correspond more closely to poorer populations in more affluent countries.

Across all these wealth categories in Jakarta, Nairobi, and Lima, the total price of the cell phone rarely had a statistically significant bearing on whether a respondent would travel for a discount. This finding contrasted with the more affluent respondents in the United States and the World Bank, where each increase in the total price of the product significantly diminished the attractiveness of traveling for a discount.¹ (See figures S3.3, S3.4, and S3.5.)

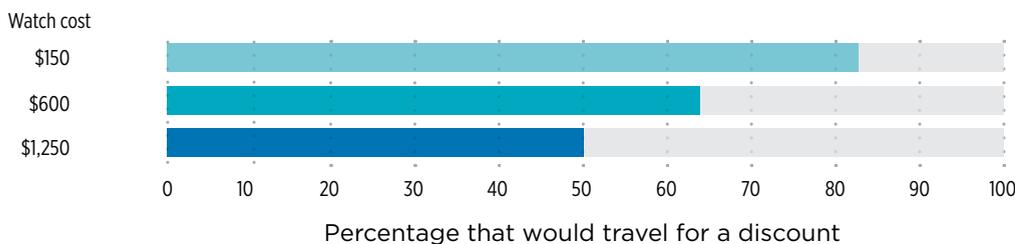
Implications

Some have argued that differences like these between poor and wealthy respondents relate to differences in the degree to which monetary concerns are salient (Hall 2008; Mullainathan and Shafir 2013). Because even modest sums matter a great deal for poor people, they might focus on absolute savings. For more affluent people, these amounts do not trigger much concern; they may not immediately think of alternative uses for the savings and thus must focus on relative savings to gauge whether or not the discount would be a good deal.

Regardless of the reasons, these results suggest a divergence in preferences between people living in poor contexts and World Bank staff working to

Spotlight 3

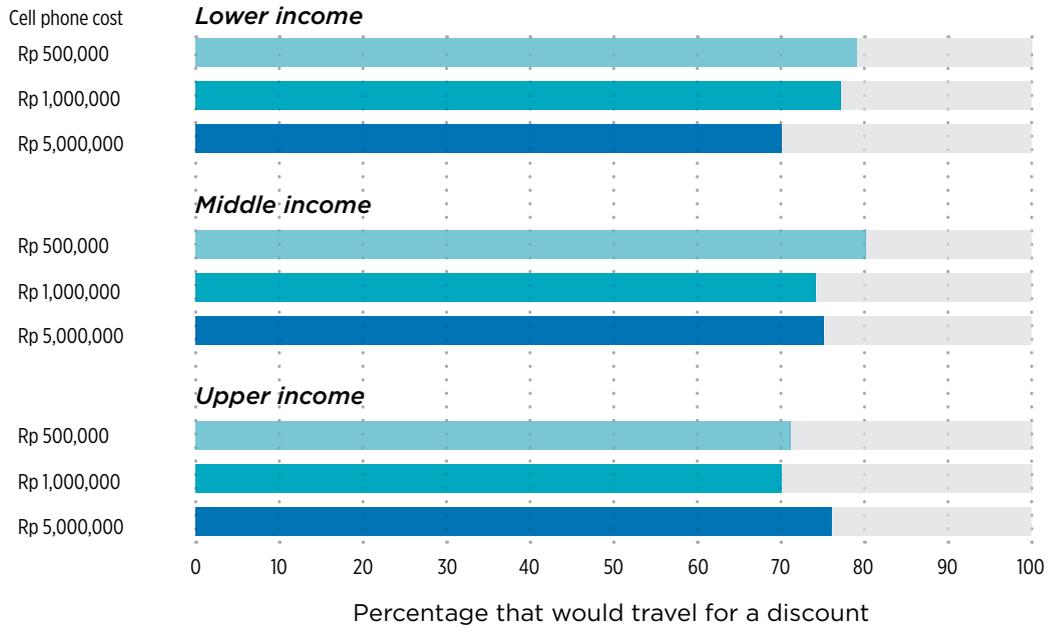
Figure S3.2 How World Bank staff view traveling for a discount on a watch



Source: WDR 2015 team.

Note: The discount was \$50.

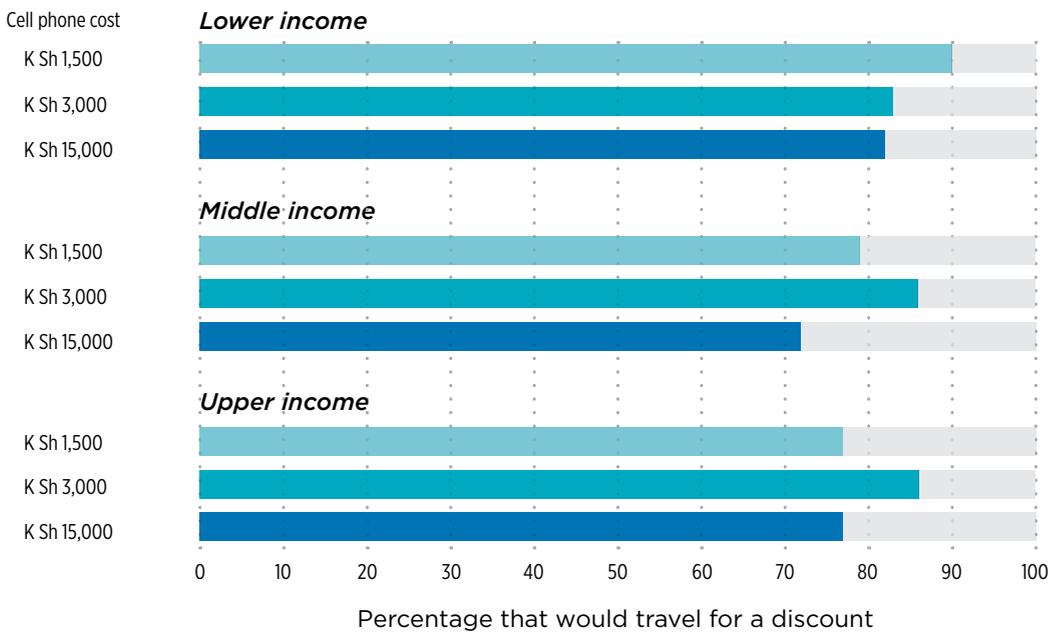
Figure S3.3 How people in Jakarta, Indonesia, view traveling for a discount on a cell phone



Source: WDR 2015 team.

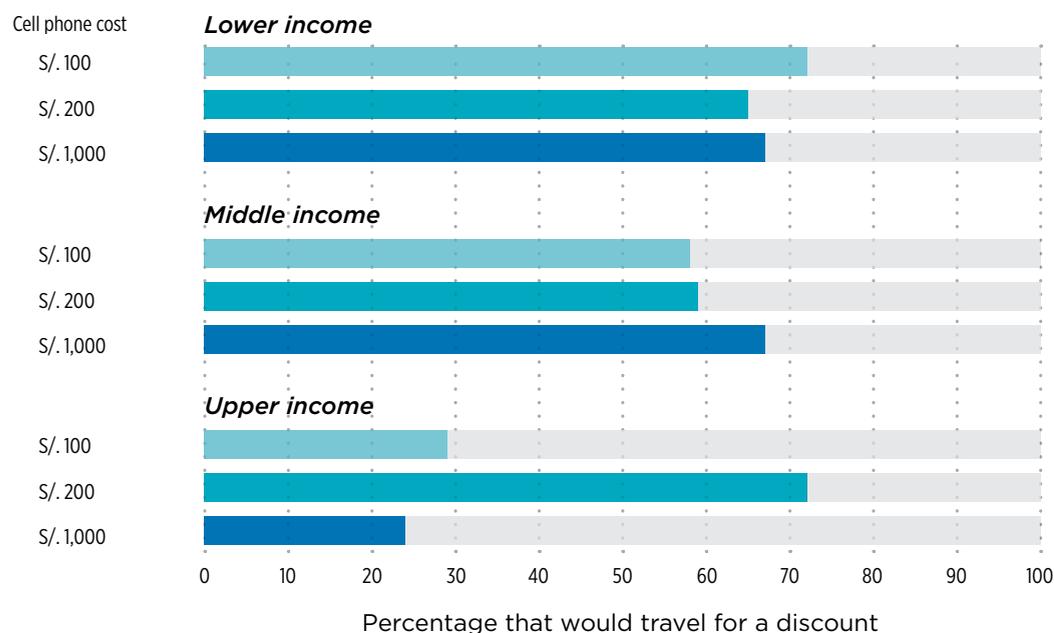
Note: Rp = Indonesian rupiah. The discount was Rp 250,000.

Figure S3.4 How people in Nairobi, Kenya, view traveling for a discount on a cell phone



Source: WDR 2015 team.

Note: K Sh = Kenyan shilling. The discount was K Sh 750.

Figure S3.5 How people in Lima, Peru, view traveling for a discount on a cell phone

Source: WDR 2015 team.

Note: S/. = Peruvian nuevo sol. The discount was S/. 50.

design strategies to assist poor people. While there is no evidence that indicates these differences translate into ineffective antipoverty strategies, they should at least suggest caution when making assumptions about what motivates decision making in contexts of poverty.

Note

1. One exception is the case of respondents from the upper-wealth group in Lima, where limited willingness to participate in the survey severely restricted the sample size of this population to 109 respondents across all question variants and possibly introduced considerable noise in the data.

References

Ariely, Daniel. 2008. *Predictably Irrational: The Hidden Forces that Shape Our Decisions*. New York: Harper Perennial.

———. 2010. *The Upside of Irrationality: The Unexpected Benefits of Defying Logic at Work and at Home*. New York: Harper.

Hall, Christel. 2008. "Decisions under Poverty: A Behavioral Perspective on the Decision Making of the Poor." PhD diss., Princeton University.

Henrich, Joseph, Steve J. Heine, and Ara Norenzayan. 2010. "The Weirdest People in the World?" *Behavioral and Brain Sciences* 33: 61–135.

Kahneman, Daniel. 2010. *Thinking, Fast and Slow*. New York: Farrar, Straus and Giroux.

Kahneman, Daniel, and Amos Tversky. 1984. "Choices, Values, and Frames." *American Psychologist* 39 (4): 341–50.

Mullainathan, Sendhil, and Eldar Shafir. 2013. *Scarcity: Why Having Too Little Means So Much*. New York: Times Books.

Tversky, Amos, and Daniel Kahneman. 1981. "The Framing of Decisions and the Psychology of Choice." *Science* 211 (4481): 453–58.