

## Health and wellness initiatives - Lunch and Learn

### *The pain of paying - practical ways to redesign your approach to budgeting*

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Federation Business School

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# Motivation

Q Popular Latest

*The Atlantic*

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**BUSINESS**

## Against Credit Cards

It's well documented that people paying with plastic are willing to spend more than when paying with cash—a phenomenon everyone fancies themselves immune to.

**JOE PINSKER** APRIL 23, 2015



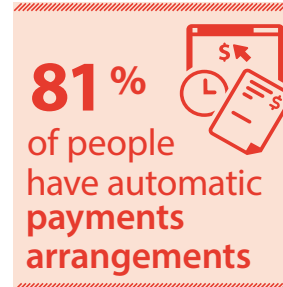
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# Motivation

## How Australians Pay SNAPSHOT 2019 Consumer Payments Survey



For more information please see Caddy J, L Delaney and C Fisher (2019), 'Consumer Payment Behaviour in Australia: Evidence from the 2019 Consumer Payments Survey', RBA Research Discussion Paper No 2020-06

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# Motivation

## How Australians Pay SNAPSHOT 2019 Consumer Payments Survey



**63%**   
of payments  
are made  
with  
a card 

**27%**   
of payments  
are made  
with cash 

**0.2%**   
of payments  
are made with  
cheques 


**13%**  
of payments  
are online 

**4/5** of in-person  
card payments  
are contactless 

**1/20** in-person  
payments are  
made with  
a mobile  
phone 

During a typical week  
**22%** of people  
hold no cash  
in their  
wallet 

**1/5** of people  
used Buy Now,  
Pay Later (BNPL)  
payments in  
the last year

**81%**  
of people  
have automatic  
payments  
arrangements 

For more information please see Caddy J, L Delaney and C Fisher (2019) 'Consumer Payments Behaviour in Australia: Evidence from the 2019 Consumer Payments Survey', RBA Research Discussion Paper No 2020-06

 [www.rba.gov.au](http://www.rba.gov.au)  
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# Outline

## Argument

*There exists a need to raise awareness of the societal challenges associated with the use of technology and financial credit in Australia and facilitate public debate of the need for further education and regulation.*

## Structure

- 1. Is there a problem? – empirical*
- 2. Is there a problem? – behavioural theory*
- 3. Ways of thinking about personal budgets – practical suggestions*

## Structure

1. *Is there a problem? – empirical*
2. *Is there a problem? – behavioural theory*
3. *Ways of thinking about personal budgets – practical suggestions*



# 1. Is there a problem? empirical



# 1. *Is there a problem? empirical*

ASIC *Buy-Now Pay-Later* (BNPL) survey October 2019.

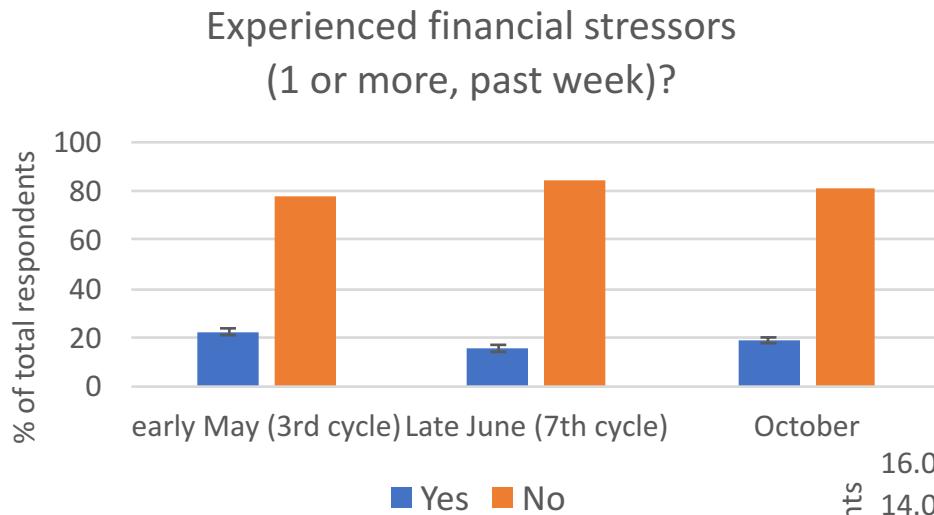
- 21% (~400,000 people in 2020) BNPL customers “missed a payment in the past 12-months”
- 20% (~400,000 people in 2020) BNPL customers “cut back or went without essentials – to make payments.
- 15% (~280,000 people 2020) BNPL customers “had taken out an additional loan”.

**Over representation of young people (aged 18-29) in all three categories.**

**Table 3: Comparison of total buy now pay later transactions and transacting users in June 2019 and June 2020**

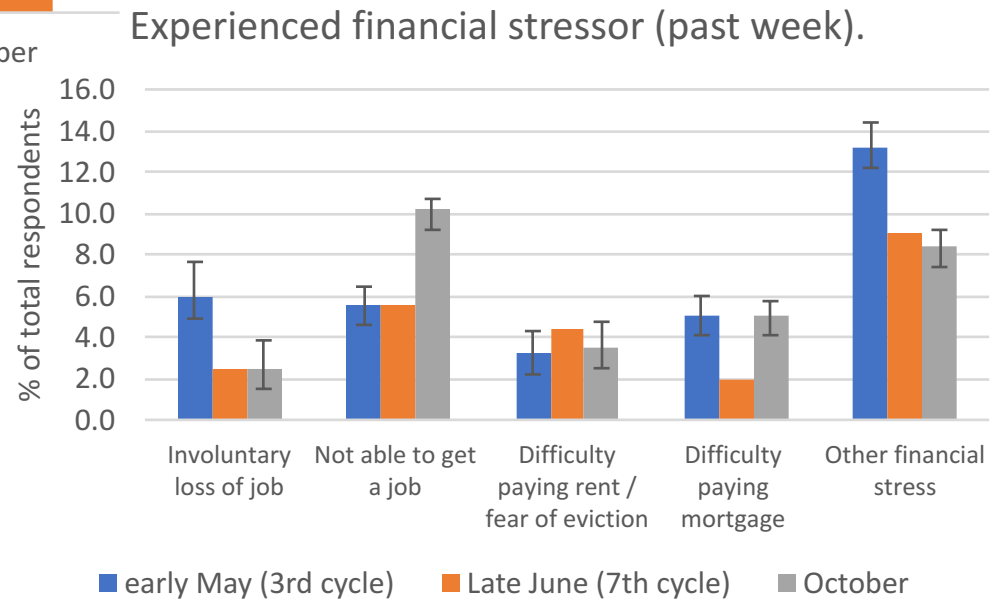
Variable	June 2019	June 2020	Growth
Number of transactions	3,370,122	4,803,940	43%
Number of transacting users	1,532,387	1,911,924	25%
Total value of transactions	\$576,436,127	\$824,653,718	43%

# 1. Is there a problem? empirical



Source: ABS (2020)

## COVID-19 shock



Source: ABS (2020)

## Structure

1. *Is there a problem? – empirical*
2. *Is there a problem? – behavioural theory*
  - I. *Dual Processing*
  - II. *Framing*
    - i. *Loss Aversion*
3. *Ways of thinking about personal budgets – practical suggestions*

## 2. *Is there a problem? Behavioural theory*

### A. Dual processing theory

- System 1 (Autonomous Mind)
- System 2 (Reflective Mind)

*Decisions made using System 1 are often made quickly based on heuristics (i.e. rules of thumb) and impulses.*

*Decisions made using System 2 are often made deliberately based on a fuller consideration of available information.*

## 2. *Is there a problem? Behavioural theory*

### B. Framing

Choices can be presented in a way that highlights the positive or negative aspects of the same decision, leading to changes in their relative attractiveness....

Different types of framing approaches have been identified, including

- i. risky choice framing (e.g. the risk of losing 10 out of 100 lives vs the opportunity to save 90 out of 100 lives),
- ii. attribute framing (e.g. beef that is 95% lean vs 5% fat), and
- iii. goal framing (e.g. motivating people by offering a \$5 reward vs imposing a \$5 penalty) (Levin et al., 1998).

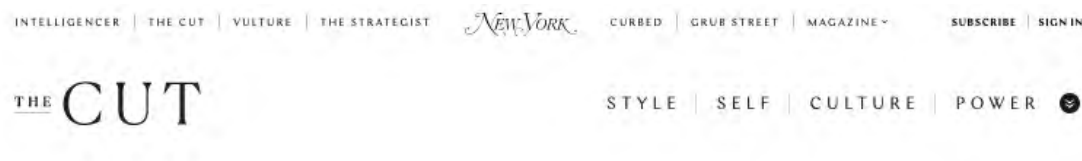
<https://www.behavioraleconomics.com/resources/mini-encyclopedia-of-be/framing-effect/>

Levin, I. P., Schneider, S. L., & Gaeth, G. J. (1998). All frames are not created equal: A typology and critical analysis of framing effects. *Organizational Behavior and Human Decision Processes*, 76, 149-188.

## 2. Is there a problem? Behavioural theory

### B. i) Loss Aversion

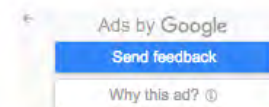
*A tendency for people to value a loss (negative valuation) disproportionately relative to an equal gain (positive valuation).*



BEHAVIORAL ECONOMICS | JAN. 18, 2017

### A Two-Word Psychological Concept Can Explain The Anger Over Obamacare's Potential Repeal

By Jesse Singal



### *3. Ways of thinking about personal budgets*

*Who's responsibility to manage household  
finances?*

Government?

Visa / Afterpay?

**Individuals?**



### *3. Ways of thinking about personal budgets*

*What motivates me to stick to a budget?*

*What is going to help me stick to a plan?*

*Rewards?*

*Goals?*

*Accountability?*

### 3. *Ways of thinking about personal budgets*

#### About **stickK.com**

#### Our Mission

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#### Our Story

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Our story begins like many stories do: with someone on a mission to shed a few pounds. What makes our story different though is that this someone was equipped with a PhD's worth of knowledge and the academic resources to figure out what works when it comes to eliciting behavioral change to achieve personal goals. This someone was [Dean Karlan](#), a Professor of Behavioral Economics at Yale University, [his weight-loss story](#) ended with the discovery of a successful goal-setting tool and his mission lives on today at stickK: to empower others with the tools and resources they need to achieve their personal goals.

What Dean Karlan discovered was the behavioral power of what we now refer to as a Commitment Contract. Through personal experience and academic research,\* Dean found that people were significantly more successful if they signed a contract obliging them to achieve their goals.

### 3. *Ways of thinking about personal budgets*

www.stickk.com



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#### **Know yourself**

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**It's important to know what your goal is. But it's more important to know what it'll take you to actually accomplish your goal.**

The possibility of losing money? A Referee who verifies your reports?  
Supporters who cheer you on along the way? Everyone's different.

With that said...our data shows that creating a Commitment Contract with:

- A Referee increases your chances of success by up to 2x
- Financial stakes increase your chances of success by up to 3x

What will it take for you?



## Structure

1. *Is there a problem? – empirical*
2. *Is there a problem? – behavioural theory*
3. ***Ways of thinking about personal budgets – practical suggestions***
  - I. *How we think about consumption.*
  - II. *Feeling the loss.*
  - III. *Monitor spending*

### 3. *Ways of thinking about personal budgets*

#### I. **How we think about consumption.**

*“The way we should think about opportunity cost of money is that when we spend money on one thing, it’s money that we cannot spend on something else, neither right now, or any time later.”*

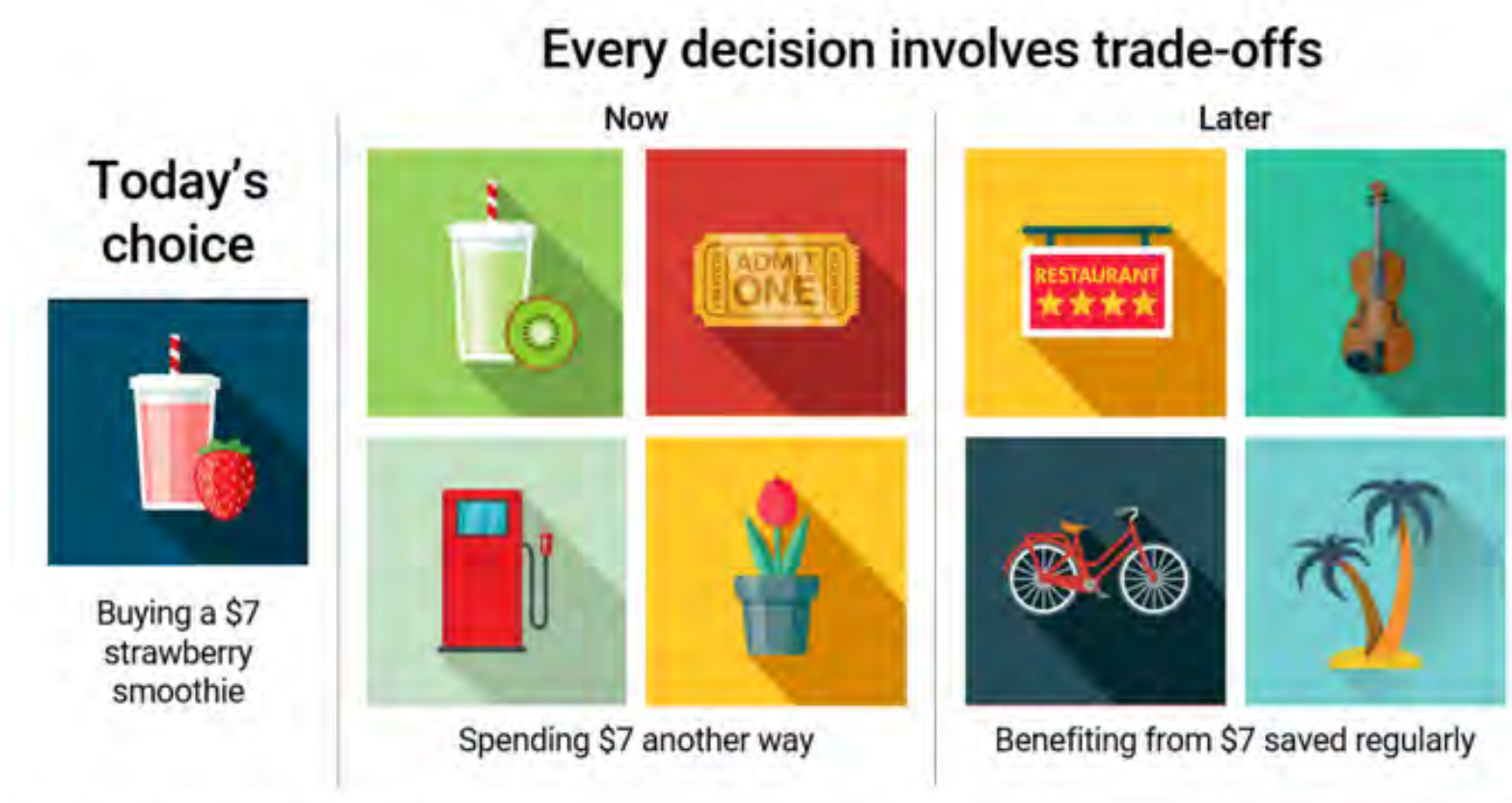
- Dan Ariely, author of *Dollar and Sense*

<https://research.stlouisfed.org/publications/page1-econ/2019/10/01/money-and-missed-opportunities>

# 3. Ways of thinking about personal budgets

## I. How we think about consumption.

### Trade-offs



Inspired by Andrea Caceres-Santamaria, "Money and Missed Opportunities." Page One Economics, October 2019. Icons by Getty Images.

FEDERAL RESERVE BANK of ST. LOUIS

### 3. *Ways of thinking about personal budgets*

#### I. **How we think about consumption.**

##### Relative vs Real valuation

*Imagine you are buying an expensive item. As part of this purchase decision, there are other separate but related goods that need to be bought. **How do you value these other goods?***

Relative valuation compares the value of these ‘other separate but related goods’ relative to the value of the expensive item.

Real valuation compares what could be bought instead of the ‘other separate but related goods’ with the same money. (trade-off)

### 3. *Ways of thinking about personal budgets*

#### I. **How we think about consumption.**

##### Relative vs Real valuation

Imagine that you have been saving some extra money on the side to make some purchases, and on your most recent visit to the video store you come across a special sale on a new video. This video is one with your favorite actor or actress, and your favorite type of movie (such as a comedy, drama, thriller, etc.). This particular video that you are considering is one you have been thinking about buying a long time. It is available at a special sale price of \$14.99.

What would you do in this situation? Please circle one of the options below.

(A) Buy this entertaining video

(B) Not buy this entertaining video [**Keep the \$14.99 for other purchases**]

By presenting option B), respondents' willingness to buy the entertainment video decreased from 75% to 55%

Frederick, S.; Novemsky, N.; Wang, J.; Dhar, R. and Nowlis, S. "[Opportunity Cost Neglect.](#)" *Journal of Consumer Research*, 2009, 36(4), pp. 553-61;



### *3. Ways of thinking about personal budgets*

#### **II. Feeling the loss.**

Use cash where possible & set yourself a 'hard' budget constraint (i.e. \$20 discretionary spending).

1. Don't carry cards

### 3. Ways of thinking about personal budgets

#### III. Monitor spending.

*“Visa & MasterCard transactions, including contactless transactions will incur a 0.5% surcharge.”*

E.g: \$350 bill ~ \$1.75 surcharge.



# 3. Ways of thinking about personal budgets

## III. Monitor spending.

### 1. Shop with a list


Grocery shopping ~17% of weekly household expenditure in Australia (ABS, 2019)

- Helps to reduce impulse buying; and
- Promotes healthier eating.



Published: 26 July 2013

## Impulse versus opportunistic purchasing during a grocery shopping experience

[Francesco Massara](#) , [Robert D. Melara](#) & [Sandra S. Liu](#)

[Marketing Letters](#) **25**, 361–372(2014) | [Cite this article](#)

**1824** Accesses | **12** Citations | **0** Altmetric | [Metrics](#)

# 3. *Ways of thinking about personal budgets*

## III. Monitor spending.

2. Keep and record expenditure for 1-month

*where does your money actually go?*

*how much discretionary spending do I make?*

3. Review plans against usage periodically & 'go to market'

a) phone & internet

b) car & home insurance

# 3. Ways of thinking about personal budgets

## III. Monitor spending.

Joe Pinsker, September 7 2018, [The Atlantic](#)

Q Popular Latest

*The Atlantic*

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Hearing all this feedback about my personal-finance system made me a bit discouraged about the dynamics that shape spending. On one side of each credit-card swipe are multiple financial corporations—a phalanx of marketers, programmers, and data analysts who have perfect visibility into countless transactions, and who are thus armed with plentiful information about people’s purchases. On the other is the individual, who lacks this bird’s-eye view and is effectively on their own as they weigh whether and how much to spend at any given time. This arrangement seems lopsided and unfair, and it’s disheartening to think that the system I designed to overcome it was something I only arrived at because it was my job to read behavioral-economics research.

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### *3. Ways of thinking about personal budgets*

#### **Summary**

1. Set a Goal and identify a mechanism to help make it stickK
2. Remember to think in Real valuation terms
3. Use Cash: i) feel the pain, ii) help to track expenditure against a budget
4. Grocery shopping with a List: i) reduces impulsive buying, ii) eat healthier
5. Monitor your Spending: i) track it for a month, ii) review contracts

# Resources

- <https://www.anz.com.au/about-us/sustainability-framework/financial-wellbeing/moneyminded/>

(Berry Street, Smith Family & Brotherhood of St. Laurence supported)

- <https://www.ato.gov.au/Individuals/Lodging-your-tax-return/Tax-Help-program/>

(Free Tax advice through the Australian Tax Office)

- <https://moneysmart.gov.au/covid-19/financial-assistance>
- <https://moneysmart.gov.au/covid-19/living-on-a-reduced-income>

Questions