

VII APPENDIX TO PART D

This appendix links suboptimal behaviours considered in the literature and surveys to be the result of financial illiteracy with social, economic, psychological and cognitive causes.

Table 1: Linking Flaws in Behaviour with Social and Psychological Causes

Suboptimal behaviour	Possible social/economic cause(s)	Possible psychological/ cognitive cause(s)
Not reading terms	<ul style="list-style-type: none"> •Market complexity •Product complexity •Unnecessarily complex and verbose contracts 	<ul style="list-style-type: none"> •Cognitive (in)ability •(Lack of) intelligence •(Lack of) motivation •Salience, or being psychologically attracted to some features while overlooking others •Information overload •Status quo effect •Trust and loyalty •Heuristics, such as the familiarly and home effect
Not understanding terms/being bound by unfair terms	<ul style="list-style-type: none"> •Market complexity •Product complexity •Use of unnecessarily complex financial terms of art •Unnecessarily complex and verbose contracts •(Lack of) formal education •Poverty and lack of social capital, causing lack of 	<ul style="list-style-type: none"> •Salience/overlooking terms •(Lack of) intelligence •(Lack of) motivation •Framing •Information overload •Status quo bias •Heuristics

	<p>experience</p> <ul style="list-style-type: none"> • Informational asymmetry 	
<p>Unmanageable credit card debt and debt</p>	<ul style="list-style-type: none"> • Poverty • Low income • Unemployment • Culture of consumerism • Financial exclusion 	<ul style="list-style-type: none"> • Present-biased time preferences • Dynamic inconsistency • Narrowly framed mental accounting, causing compartmentalization • Not considering relevant reference points • Framing of marketing or credit card interest payment information • Overconfidence in the ability to repay or to gain future cash flow • Lack of self control • Self serving evaluations • Sunk costs effect • Wants • Ego • Short-sightedness • Heuristics, such as anchoring, adjustment, representativeness (ie: gambler's fallacy) and availability • Disposition effect (in relation to losses in share trading)
<p>Unnecessarily incurring fees, for not paying debt on time etc</p>	<ul style="list-style-type: none"> • Poverty • Low income • Unemployment • Culture of consumerism 	<ul style="list-style-type: none"> • Present-biased time preferences • Dynamic inconsistency • Not considering relevant reference points • Framing • Overconfidence • Lack of self control

		<ul style="list-style-type: none"> • Adjustment • Self serving evaluations • Sunk costs • Cognitive dissonance • Wants • Ego • Short-sightedness • Heuristics, such as adjustment
Not considering key features of financial products	<ul style="list-style-type: none"> • Poverty, resulting in lack of exposure to finance • Product complexity • Too many products • Product features explained in an unnecessarily complex way • The product disclosure statement is too detailed • Informational asymmetry 	<ul style="list-style-type: none"> • Salience, and overlooking some important clauses and features • Mental accounting • Framing • Overconfidence • Ambiguity aversion • Inertia • Information overload • Heuristics • Trust and loyalty • Heuristics such as representativeness (using past performance to indicate future performance) or the adjustment based anchoring bias
Not undertaking comparison shopping	<ul style="list-style-type: none"> • Market complexity • Product complexity • Too many products 	<ul style="list-style-type: none"> • Laziness, lack of motivation • (Lack of) cognitive ability and numeracy • Trust and loyalty • Ambiguity aversion • Inertia • Information overload • Heuristics, such as the familiarity and

		<p>home bias, or the adjustment based anchoring bias</p> <ul style="list-style-type: none"> • Information asymmetry
Not reviewing already owned products	<ul style="list-style-type: none"> • Social networks • Product complexity 	<ul style="list-style-type: none"> • Trust and loyalty • Defaults • Heuristics • Status quo bias • The endowment effect • Confirmatory bias • Heuristics, such as self-serving evaluations • Adjustment based anchoring bias
Purchasing unnecessary products	<ul style="list-style-type: none"> • (Lack of) formal education • Social networks/informal advice 	<ul style="list-style-type: none"> • Time inconsistent preferences • Framing • Defaults • Heuristics • Contrast effects • Inexperience • Norms • The spotlight effect
Not considering fees and charges	<ul style="list-style-type: none"> • Market complexity • Product complexity • Hidden fees and charges, in overly complex contracts 	<ul style="list-style-type: none"> • Framing • Hyperbolic discounting • Anchoring
Not considering investment objectives	<ul style="list-style-type: none"> • Social networks • Crowd effect/tipping point 	<ul style="list-style-type: none"> • Cognitive dissonance • Sunk costs • Ego • Pride • Disposition effect
“Short	<ul style="list-style-type: none"> • Culture of consumerism 	<ul style="list-style-type: none"> • Present-biased time preferences

sightedness”		<ul style="list-style-type: none"> •Dynamic inconsistency •The “value of zero”
“Compartment alization” of money	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> •Mental accounting
Do not receive or seek independent advice	<ul style="list-style-type: none"> •Poverty •Low income •(Lack of) formal education •Social networks 	<ul style="list-style-type: none"> •Ego •Self serving evaluations •Overconfidence •Information overload •Ambiguity aversion
Not evaluating the credibility of an advisor’s information, not seeking consensus, or not critiquing advice	<ul style="list-style-type: none"> •Time asymmetry •Skill asymmetry •Poverty •Low income 	<ul style="list-style-type: none"> •Defaults •Trust and loyalty •Information overload
Not understanding financial advice	<ul style="list-style-type: none"> •Market complexity •Product complexity •Unnecessarily complex advice •Poverty, due to lack of exposure to finance •(Lack of) formal education 	<ul style="list-style-type: none"> •(Lack of) cognitive ability and intelligence •Innumeracy or lack of arithmetic skills
Using non-professional sources of information, such as family	<ul style="list-style-type: none"> •Social networks •Wealth 	<ul style="list-style-type: none"> •Trust and loyalty •Heuristics, such as the familiarity and home bias

and friends		
Not gathering or reviewing information	<ul style="list-style-type: none"> •Product complexity •Market complexity 	<ul style="list-style-type: none"> •Trust and loyalty •(Lack of) motivation
Not saving for the long term/ not budgeting	<ul style="list-style-type: none"> •Poverty •Low income •Culture of consumerism 	<ul style="list-style-type: none"> •Short-sightedness •Hyperbolic discounting •Heuristics, causing people to spend more than necessary •Wants •Time inconsistent preferences, and dynamic inconsistency •Ego
Making poor investments	<ul style="list-style-type: none"> •Lack of formal education 	<ul style="list-style-type: none"> •Disposition effect •Sunk costs effect •Heuristics and rules of thumb, such as the diversity heuristic •Self serving evaluations •Preference reversals and time inconsistent preferences •Recognition heuristic •Home effect •Representativeness heuristic, particularly related to share trading •Availability heuristic, relating to the illusory correlation error •Contrast effects •Cognitive dissonance
Inactivity in the markets	<ul style="list-style-type: none"> •Poverty •Low income •Product complexity 	<ul style="list-style-type: none"> •Loss aversion •Inertia •Preference reversals

	<ul style="list-style-type: none"> • Market complexity 	<ul style="list-style-type: none"> • Lack of propensity for risk in a market with low promised returns • Availability and representativeness heuristic (depending on previous experience) • Availability heuristic, particularly resulting in the bias of imaginability and the bias due to the irretrievability of information
Not buying insurance	<ul style="list-style-type: none"> • Poverty • Low income 	<ul style="list-style-type: none"> • Overweighting small probabilities • Mental accounting • Dynamic inconsistency

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