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

<table>
<thead>
<tr>
<th>Suboptimal behaviour</th>
<th>Possible social/economic cause(s)</th>
<th>Possible psychological/ cognitive cause(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not reading terms</td>
<td>• Market complexity&lt;br&gt;• Product complexity&lt;br&gt;• Unnecessarily complex and verbose contracts</td>
<td>• Cognitive (in)ability&lt;br&gt;• (Lack of) intelligence&lt;br&gt;• (Lack of) motivation&lt;br&gt;• Salience, or being psychologically attracted to some features while overlooking others&lt;br&gt;• Information overload&lt;br&gt;• Status quo effect&lt;br&gt;• Trust and loyalty&lt;br&gt;• Heuristics, such as the familiarly and home effect</td>
</tr>
<tr>
<td>Not understanding terms/being bound by unfair terms</td>
<td>• Market complexity&lt;br&gt;• Product complexity&lt;br&gt;• Use of unnecessarily complex financial terms of art&lt;br&gt;• Unnecessarily complex and verbose contracts&lt;br&gt;• (Lack of) formal education&lt;br&gt;• Poverty and lack of social capital, causing lack of</td>
<td>• Salience/overlooking terms&lt;br&gt;• (Lack of) intelligence&lt;br&gt;• (Lack of) motivation&lt;br&gt;• Framing&lt;br&gt;• Information overload&lt;br&gt;• Status quo bias&lt;br&gt;• Heuristics</td>
</tr>
<tr>
<td>Experience</td>
<td>Unmanageable credit card debt and debt</td>
<td>Unnecessarily incurring fees, for not paying debt on time etc</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------</td>
</tr>
<tr>
<td>• Informational asymmetry</td>
<td>• Poverty • Low income • Unemployment • Culture of consumerism • Financial exclusion</td>
<td>• Poverty • Low income • Unemployment • Culture of consumerism</td>
</tr>
<tr>
<td>• Present-biased time preferences</td>
<td>• Dynamic inconsistency • Narrowly framed mental accounting, causing compartmentalization</td>
<td>• Present-biased time preferences</td>
</tr>
<tr>
<td>• Not considering relevant reference points</td>
<td>• Framing of marketing or credit card interest payment information</td>
<td>• Dynamic inconsistency</td>
</tr>
<tr>
<td>• Overconfidence in the ability to repay or to gain future cash flow</td>
<td>• Lack of self control • Self serving evaluations • Sunk costs effect • Wants • Ego</td>
<td>• Not considering relevant reference points</td>
</tr>
<tr>
<td>• Short-sightedness</td>
<td>• Heuristics, such as anchoring, adjustment, representativeness (ie: gambler’s fallacy) and availability</td>
<td>• Overconfidence • Sunk costs effect • Wants • Ego</td>
</tr>
<tr>
<td>• Disposition effect (in relation to losses in share trading)</td>
<td></td>
<td>• Sunk costs effect • Wants • Ego</td>
</tr>
<tr>
<td>• Financial exclusion</td>
<td></td>
<td>• Sunk costs effect • Wants • Ego</td>
</tr>
<tr>
<td>• Unemployment</td>
<td></td>
<td>• Sunk costs effect • Wants • Ego</td>
</tr>
<tr>
<td>• Culture of consumerism</td>
<td></td>
<td>• Sunk costs effect • Wants • Ego</td>
</tr>
<tr>
<td>• Poverty</td>
<td>• Present-biased time preferences • Dynamic inconsistency • Not considering relevant reference points</td>
<td>• Overconfidence • Lack of self control</td>
</tr>
<tr>
<td>• Unemployment</td>
<td>• Framing • Overconfidence • Lack of self control</td>
<td>• Overconfidence • Lack of self control</td>
</tr>
<tr>
<td>• Culture of consumerism</td>
<td></td>
<td>• Overconfidence • Lack of self control</td>
</tr>
</tbody>
</table>
| Not considering key features of financial products | • 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 | • Adjustment  
• Self serving evaluations  
• Sunk costs  
• Cognitive dissonance  
• Wants  
• Ego  
• Short-sightedness  
• Heuristics, such as adjustment |
| --- | --- |
| Not undertaking comparison shopping | • Market complexity  
• Product complexity  
• Too many products | • Laziness, lack of motivation  
• (Lack of) cognitive ability and numeracy  
• Trust and loyalty  
• Ambiguity aversion  
• Inertia  
• Information overload  
• Heuristics, such as the familiarity and |
| **Not reviewing already owned products** | • Social networks  
• Product complexity | • 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** | • (Lack of) formal education  
• Social networks/informal advice | • Time inconsistent preferences  
• Framing  
• Defaults  
• Heuristics  
• Contrast effects  
• Inexperience  
• Norms  
• The spotlight effect |
| **Not considering fees and charges** | • Market complexity  
• Product complexity  
• Hidden fees and charges, in overly complex contracts | • Framing  
• Hyperbolic discounting  
• Anchoring |
| **Not considering investment objectives** | • Social networks  
• Crowd effect/tipping point | • Cognitive dissonance  
• Sunk costs  
• Ego  
• Pride  
• Disposition effect |
<p>| “Short” | • Culture of consumerism | • Present-biased time preferences |</p>
<table>
<thead>
<tr>
<th>Problem Description</th>
<th>Solutions</th>
</tr>
</thead>
</table>
| Sightedness                                                                      | - Dynamic inconsistency  
|                                                                                   | - The “value of zero”                                                    |
| “Compartmentalization” of money                                                  | - Mental accounting                                                      |
| Do not receive or seek independent advice                                         | - Poverty  
|                                                                                   | - Low income  
|                                                                                   | - (Lack of) formal education  
|                                                                                   | - Social networks                                                       |
| Not evaluating the credibility of an advisor’s information, not seeking consensus, or not critiquing advice | - Time asymmetry  
|                                                                                   | - Skill asymmetry  
|                                                                                   | - Poverty  
|                                                                                   | - Low income |
| Not understanding financial advice                                                | - Defaults  
|                                                                                   | - Trust and loyalty  
|                                                                                   | - Information overload |
| Using non-professional sources of information, such as family                    | - Market complexity  
|                                                                                   | - Product complexity  
|                                                                                   | - Unnecessarily complex advice  
|                                                                                   | - Poverty, due to lack of exposure to finance  
|                                                                                   | - (Lack of) formal education |
|                                                                                  | - (Lack of) cognitive ability and intelligence  
|                                                                                   | - Innumeracy or lack of arithmetic skills |
|                                                                                  | - Trust and loyalty  
|                                                                                   | - Heuristics, such as the familiarity and home bias |
| and friends & Not gathering or reviewing information & • Product complexity  
|| Market complexity  
| Not saving for the long term/ not budgeting & • Poverty  
|| Low income  
|| Culture of consumerism  
| Making poor investments & • Lack of formal education  
| Inactivity in the markets & • Poverty  
|| Low income  
|| Product complexity

|  & • Trust and loyalty  
|  & • (Lack of) motivation  
|  & • Short-sightedness  
|  & • Hyperbolic discounting  
|  & • Heuristics, causing people to spend more than necessary  
|| Wants  
|| Time inconsistent preferences, and dynamic inconsistency  
|| Ego  
|  & • 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  
|  & • Loss aversion  
|  & • Inertia  
|  & • Preference reversals  

From Article at GetOutOfDebt.org
<table>
<thead>
<tr>
<th>Market complexity</th>
<th>Lack of propensity for risk in a market with low promised returns</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Availability and representativeness heuristic (depending on previous experience)</td>
</tr>
<tr>
<td></td>
<td>Availability heuristic, particularly resulting in the bias of imaginability and the bias due to the irretrievability of information</td>
</tr>
<tr>
<td>Not buying insurance</td>
<td>Poverty</td>
</tr>
<tr>
<td></td>
<td>Low income</td>
</tr>
<tr>
<td></td>
<td>Overweighting small probabilities</td>
</tr>
<tr>
<td></td>
<td>Mental accounting</td>
</tr>
<tr>
<td></td>
<td>Dynamic inconsistency</td>
</tr>
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</table>