

# Consumption Smoothing, Saving, Credit and Insurance

Lecture 6/1(Addition): Constraints to saving

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## Introduction

- Market frictions, including transaction costs, lack of trust, and regulatory barriers, hinder the supply of savings products
- Only 22% of adults worldwide report having saved at a formal financial institution, and 77% of adults living on less than \$2 a day report not having an account at a formal financial institution (Demirguc-Kunt and Klapper, 2012).
- Read: SAVINGS BY AND FOR THE POOR: A RESEARCH REVIEW AND AGENDA by Karlan et al. (2014)

## Constraints to saving

- Transaction costs
  - Pecuniary costs
  - Non-pecuniary costs
- Lack of trust and regulatory barriers
  - Low consumer trust and confidence
  - regulatory barriers
- Information and knowledge gaps (financial literacy)
- Social constraints
  - Intra-household bargaining and sharing
  - Inter-household bargaining and sharing
- Behavioral biases
  - Bias in preferences
    - \* Living for today (costly self-control)
    - \* correlations between present-bias and under-saving
    - \* Loss aversion
  - Biases in expectation (underestimating compound interest)
  - Biases in problem-solving (inattention to savings)