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Title:

Are the poor really so present-biased? Evidence from an experiment in Pakistan

Abstract:

Recent literature suggests that measures of poor individuals' time preferences may be confounded by changes in their consumption over time. In particular, estimates that many individuals are "present-biased" -- i.e. more impatient about the immediate future compared to later dates -- may be exaggerated if individuals are on average expecting to have a lower marginal rate of intertemporal substitution in the future (and vice versa). I conduct a field experiment in rural Pakistan to provide the first fully experimental evidence of this effect. Subjects participate in two sessions of incentivized activities involving monetary payments: a baseline, and a follow-up two weeks later. Consistent with theoretical predictions, subjects whose liquidity constraints are eased by receiving a modest experimental windfall at baseline, rather than at follow-up, are much less likely to appear "present-biased" and indeed much more likely to appear "future-biased". In a cross-cutting quasi-experiment, subjects whose baseline session is randomly scheduled just after the wheat harvest, rather than just before, are much more likely to appear "time-consistent". None of these effects operate via changing cognitive function or risk appetite, but rather appear to be pure effects of liquidity. The results have important implications for the measurement of time preferences, and for interventions offering commitment.