



BEHAVIORAL ECONOMICS

Lab Assignment



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ANALYZE: Change a Bad Financial Habit

We all have had that experience of developing a bad financial habit that we just can't seem to shake. Maybe it's that daily coffee you buy and you keep telling yourself, "Just for today!" Or maybe the "occasional" shopping spree you treat yourself to becomes a monthly expense.

Smart money management requires building a foundation in strong, healthy financial habits. In this activity, we'll learn about how habits work and then apply that knowledge to a financial habit that you'd like to change.

Part I: Choose a Financial Habit

Take a few moments to think about a financial habit you'd like to change. Then, answer the questions below.

1. What is the financial habit you've chosen? Why do you want to change this habit?

Financial Habit: Impulsive unnecessary shopping

I want to change this because I spend on unnecessary things that I know I will not use.

2. Provide some detail about this habit:

- a. How long have you had this habit?

I have had this habit for around five to six years.

- b. How do you think this habit started?

This habit started when I got my own phone or was under peer pressure.

- c. Have you tried to change this behavior in the past? If so, what happened?

Yes, I tried to change this in past, but it was an utter failure. I deleted the e-commerce apps from my phone but then I started looking for websites or Instagram pages.

Part II: The Habit Cycle

Now that you've reflected on a financial habit you'd like to change, let's take a step back and look at how habits work. In his very popular book, The Power of Habit, Charles Duhigg explains the **habit cycle** and its three main components. Watch this short [video](#) on the habit cycle and answer the questions below.

3. For Charles, what was his habit's cue, routine, and reward? Write them down next to each step in the habit cycle below.

Cue: Craving between 3:00 to 3:30 (Time of the day)

Routine:

1. Craving
2. Get up from the chair and walk to the elevator
3. Take the elevator to the 14th floor, get out
4. Buy a cookie
5. Eat it while talking to colleagues

Reward: Socializing

4. Describe how Charles found out what his cue and reward were in the habit cycle above.

- When the cookies urge struck, instead of going up to the cafeteria, he went outside and took a walk around the block.
- The next day he went to the cafeteria but instead of buying a cookie, he got a candy bar and then ate it at his desk.
- Then after that day, we went up and bought nothing, instead, he just talked to friends for 10 minutes.

This way he figured out that Reward had nothing to do with the cookies, it had to do with socializing.

5. You may have thought that Charles' reward was the cookie itself -- delicious! But really, Charles determined that **socializing** was the true reward of his daily cookie break.

a. How did that knowledge help Charles change his habit?

That knowledge helped Charles identify what exactly he was craving and what was the driving force behind the habit; hence, he could finally think of a way of changing that.

b. What routine did he replace his cookie-eating routine with?

At about 3:30 in the afternoon, he looks around the office and finds a friend. He then walks over to him and they gossip for 10 minutes and then go back to his desk

Part III: What Might Your Cue and Reward Be?

6. Take a moment to reflect on the habit you want to change and think about what your potential habit cycle could look like.

a. What is the routine for your habit? Write it down in the cycle below next to Routine:

1. Stressed, can't do anything about the situation
2. Pick up the phone
3. Open the app
4. Start scrolling on different platforms
5. Choose the things that look attractive
6. Push them onto the cart
7. Make a purchase

b. What could be some possible cues for your habit? Make a list below in the cycle next to

Cue:

Emotional State: Stressful State— usually before the start of exams

Time of the day: Bedtime

Other: Seeing people around me buy something

c. What could be some possible rewards? Make a list below in the cycle next to

Reward:

Dopamine Rush

Feel good at that moment

Part IV: Create a Plan

As he explained in his video, Charles Duhigg spent a few days tracking when his habit occurred to figure out what the cue was. He then had to test several hypotheses to determine what his reward was. For you to figure out what your actual cue and reward are, you too will have to observe your behavior and track your findings. Use the questions below to create a plan for how you will do so over the course of **7 days**.

7. How will you track when the cue for your habit occurs?

To track the cue for my habit, I'll keep a close eye on the situations where I feel stressed or when I'm feeling bored.

8. Once you've determined the cue for your habit, how will you test what your reward is? How will you record your observations?

To test what my reward is, Firstly I'll just window shop.

The next time, I can buy a necessary thing which is required by me.

Then after that, I can just do something productive to feel good.

9. What reminders (if any) do you need to set so you remember to follow this plan each day?

To set a reminder to sleep early, so that I don't have time to scroll through different apps at night.

Part V: Execute Your Plan

It's time to put your plan into action! Follow your plan for the next 7 days to determine what the cue and reward are for your routine.

10. At the end of the 7 days, write down what you found to be the cue and reward for your routine in the habit cycle below.

Cue: Getting stressed due to exams

Reward: Dopamine Rush

11. Now that you know what reward is driving your habit, what routine(s) can you replace your current routine with so that you ultimately *change your habit*?

To ultimately change my habit, I'll replace the current routine with some other things that will give me the required reward.

- In stressful situations instead of picking up my phone, I'll talk to a friend who can guide me and calm me down.
- In a feeling bore situation, I can talk myself into doing some productive work and ultimately succeeding at it and hence getting the required dopamine.

12. Fast forward 5 or 10 years and you are in your mid-to-late twenties. Imagine that you have NOT been able to change your bad habit, and you have many other financial obligations (e.g. rent, car payments and insurance, groceries, phone bill, etc). How do you think your bad habit will impact your life as an adult compared to how it impacts your life now as a teenager?

This habit will adversely affect my life as an adult:

- Unable to control finances: I won't have any money saved up as I'll be spending most of it on useless stuff.
- Poor Role Model to my kids: I won't be able to control my kids when they make unnecessary demands.
- Late Retirement: I'll have to work more, to fulfill my demands of shopping
- Self-guilt: Maybe I can end up having depression because of this habit as it will be impacting my life in a major way.

Part VI: Reflection

13. In a paragraph, explain how the habit cycle has impacted your understanding of your financial behavior and your ability to change it.

Understanding the habit cycle has made me clear about how to manage my choices and behavior more fruitfully. Habits aren't destiny. With the help of knowing our habit cycle, we can transform our businesses, our communities, and our lives. By getting clear-cut knowledge about how to observe the cues, the routine, and the reward one can have awareness and control of their behaviors. It stops us from going into autopilot mode all the time. I have understood that financial behavior is in our

own hands and it can produce the results we see in our lives. If you don't like the results, we can then change the behavior. We just need to figure out a better way of achieving the reward that we are looking for in the end. We are in charge to devise interventions on our own and as it relates to changing certain habits.