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Justin Abraham

Dept. of Economics

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14 August 2020

Dear Dr. Olken,

We would like to submit the attached manuscript, “The Role of Regret in Prize-Linked Savings: Experimental Evidence from Kenya”, authored by Merve Akbas, Dan Ariely, Chaning Jang, and myself, for your consideration at the American Economic Journal: Applied Economics.

The paper reports on a field experiment studying the behavioral effects of prize-linked savings (PLS) accounts—a type of product that incorporates lottery-like incentives for saving. With a sample of low-income, urban residents, we find that PLS improved account usage compared to a standard deposit account providing a fixed incentive equivalent to the expected value of the lottery. Consistent with earlier empirical evidence on lottery incentives, we find no increases in the amount saved with PLS and, consequently, no substitution away from saving by other means. By implementing experimental variation in lottery resolution, we can rationalize our pattern of findings as consequences of regret aversion.

We believe that AEJ: Applied Economics is an appropriate outlet for our paper because of several contributions to the microeconomics of financial decision-making. First, our paper constitutes one of the earliest randomized evaluations of a PLS product in a low-income setting. In contrast to the existing body of laboratory evidence, our results speak to the role of economic factors in moderating the effectiveness of lottery incentives in saving. Second, our study quantifies the role of regret aversion as a specific behavioral mechanism underlying the observed effects. Isolating regret aversion answers a question in the literature as to why risk-averse individuals respond preferably to stochastic incentives. Third, we make headway in the empirical study of regret aversion in repeated settings, an area of research still at the frontier of regret theory.

We are hopeful that our study represents a significant advance in the behavioral economics of savings interventions and is therefore a good fit for AEJ: Applied Economics. We welcome questions and feedback regarding our study and are grateful for your consideration.

Sincerely,

Justin Abraham