

Political Science 209 - Fall 2018

Prediction

Florian Hollenbach

30th September 2018

Carvalho, Leandro S., Meier, Stephen, and Wang, Stephanie W. (2016). "Poverty and economic decision-making: Evidence from changes in financial resources at payday." *American Economic Review*, Vol. 106, No. 2, pp. 260-284.

In-class Exercise Measurement

Do changes in one's financial circumstances affect one's decision-making process and cognitive capacity? In an experimental study, researchers randomly selected a group of US respondents to be surveyed before their payday and another group to be surveyed after their payday. Under this design, the respondents of the Before Payday group are more likely to be financially strained than those of the After Payday group. The researchers were interested in investigating whether or not changes in people's financial circumstances affect their decision making and cognitive performance. Other researchers have found that scarcity induce an additional mental load that impedes cognitive capacity.

Poverty and economic decision-making

In this study, the researchers administered a number of decision-making and cognitive performance tasks to the Before Payday and After Payday groups. We focus on the numerical stroop task, which measures cognitive control. In general, taking more time to complete this task indicates less cognitive control and reduced cognitive ability. They also measured the amount of cash the respondents have, the amount in their checking and saving accounts, and the amount of money spent.

Poverty and economic decision-making

Load the poverty.csv data set.

Poverty and economic decision-making

Variables:

- *treatment*: Treatment conditions: Before Payday and After Payday
- *cash*: Amount of cash respondent has on hand
- *accts_amt* Amount in checking and saving accounts
- *stroop_time*: Log-transformed average response time for cognitive stroop test
- *income_less20k*: Binary variable: 1 if respondent earns less than 20k a year and 0 otherwise

Look at a summary of the poverty data set to get a sense of what its variables looks like.

Poverty and economic decision-making

Question 1

1. Use histograms to examine the univariate distributions of the two financial resources measures: `cash` and `accts_amt`. What can we tell about these variables' distributions from looking at the histograms? Evaluate what the shape of these distributions could imply for the authors' experimental design.
2. Now, take the natural logarithm of these two variables and plot the histograms of these transformed variables. How does the distribution look now? What are the advantages and disadvantages of transforming the data in this way?

NOTE: Since the natural logarithm of 0 is undefined, researchers often add a small value (in this case, we will use \$1 so that $\log 1 = 0$) to the 0 values for the variables being transformed.

Question 2a

Now, let's examine the primary outcome of interest for this study—the effect of a change in financial situation (in this case, getting paid on payday) on economic decision-making and cognitive performance. Begin by calculating the treatment effect for the `stroop_time` variable (a log-transformed variable of the average response time for the stroop cognitive test), using first the mean and then the median. What does this tell you about differences in the outcome across the two experimental conditions?

Question 2b

Secondly, let's look at the relationship between financial circumstances and the cognitive test variable. Produce two scatter plots side by side (hint: use the `par(mfrow)` before your plot commands to place graphs side-by-side), one for each of the two experimental conditions, showing the bivariate relationship between your log-transformed cash variable and the amount of time it took subjects to complete the stroop cognitive test administered in the survey (`stroop_time`). Place the `stroop_time` variable on the y-axis. Be sure to title your graphs to differentiate between the Before Payday and After Payday conditions. Now do the same, for the log-transformed `accts_amt` variable.

Question 3

Now, let's take a closer look at whether or not the Before Payday versus After Payday treatment created measurable differences in financial circumstances. What is the effect of payday on participants' financial resources? To help with interpretability, use the original variables `cash` and `accts_amt` to calculate this effect. Calculate both the mean and median effect. Does the measure of central tendency you use affect your perception of the effect?

Question 4

Compare the distributions of the Before Payday and After Payday groups for the log-transformed cash and accts_amt variables. Use quantile-quantile plots to do this comparison, and add a 45-degree line in a color of your choice (not black). Briefly interpret your results and their implications for the authors' argument that their study generated variation in financial resources before and after payday. When appropriate, state which ranges of the outcome variables you would focus on when comparing decision-making and cognitive capacity across these two treatment conditions.