Gamblers as Personal Finance Activists

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All views and opinions are my own
Summary

- Gamblers: households reporting having spent money on lotteries over the last three months
  - Passion for risk, third moments, regret.. ?

- CEX data:
  1. Gamblers spend more than non-gamblers
     - Out of “permanent” income
  2. More likely to donate
     - Conditional on giving, give less
  3. Have more assets, and more intriguing portfolios

- Conclusion: gambling captures heterogeneity in preferences / activity towards portfolio management
Congrats!

• Very interesting strategy to infer preference heterogeneity from a wide variety of choices. Lots of information on consumption and portfolio composition.

• A consistent story arises from many different outcomes.

• Clever use of paradata to test for differential reporting.
Miscellanea

1. Why exclude “over 65” group?
2. Standard errors in expenditure growth similar to those in expenditure levels
   – Heteroscedasticity-adjusted?
   – Clustered by individual?
3. Why some wealth items and not others?
   – Business ownership
4. Hard to compare consumption and wealth specifications
   – Consumption analyzed via regressions
   – “Wealth” presented inconditionally
     • Would wealth-income ratios help
Comment 1: Income?

- Gamblers and non-gamblers have similar APC’s if normalize expenditure by current income.
- Higher APC’s if normalize by permanent income.
  - Permanent income defined cross-sectionally.
  - $E(\log Y | \text{educ}, \text{occupation}, \text{year})$.
- Difference between actual and permanent income contains:
  - Permanent elements—ability.
  - Transitory components—shocks, etc.
Comment 1: Income? (cont.)

• Strength of components may matter
  – If logY-E(logY|Educ,Occ) mostly transitory -> gamblers probably should save more, given prospects
  – If logY-E(logY|Educ,Occ) mostly permanent -> gamblers and non gamblers similar saving rates.

• First case, “activism may pay off”.
  – Get similar (unconditional) wealth out of lower savings.

• In the second case, “activism does not pay off”
  – Higher activity and similar saving rates do not result in higher (unconditional) wealth.

• [Would be helpful to see specifications like those with expenditure, but with wealth in the LHS]
Comment 1: Income? (cont.)

- Which income process in mind?
- Can panel component in CEX be used to obtain further clues on:
  - Income stability, “shocks”?
  - Changes in employment status?
- More generally, information on occupation status by gambling status would help
  - Higher income than peers in schooling/occupation
  - Lease their car more often
  - Do these people work in particular jobs?
Comment 2: Reporting error

• 30% hh holds gamble in CEX
  – 60% individuals in other surveys
  – How does this 60% of individuals reshuffle into households not known.

• But reporting error CEX (I-S) prevalent.
  – Key covariate measured with non-classical error.

• Expenditure items “filled” by gamblers and non-gamblers is similar
  – gamblers take more time.

• Ratio of nongamblers and gamblers answering a given question equals .80
1. Is CEX measure of gambling externally valid?
   - Can be extrapolated to other settings?
   - How does gambling (extensive and intensive margins) correlate with covariates in CEX/NORC surveys?

2. Use paradata as covariates?
   - Use paradata to construct a signal of “quality of the interview”?
     - DK/NA in interview part, interviewer fixed effects?
   - Control for “quality” to hold non-response constant.

3. Were results stronger using singles only?
Comment 3: Other stories

• Gamblers have interesting preferences
  – Interesting budget constraints?
• Look like people under stress
  – Current income is above their “permanent” one.
  – More likely to own houses and to have recently refinanced their mortgages.
    • Committed expenses + more illiquid portfolios?
  – Recently increased drinking / smoking.
• Chetty and Szeidl (2007): (risk averse) consumers with a high level of committed expenses become (locally) risk lovers.
  – “People with a troubled budget constraint gamble”