

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 unconditionally
 - 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
 - $E(\log Y | \text{educ, occupation, year})$
- Difference between actual and permanent income contains
 - Permanent elements—ability
 - Transitory components —shocks, etc

Comment 1: Income? (cont.)

- Strength of components may matter
 - If $\log Y - E(\log Y | \text{Educ}, \text{Occ})$ mostly transitory \rightarrow gamblers probably should save more, given prospects
 - If $\log Y - E(\log Y | \text{Educ}, \text{Occ})$ mostly permanent \rightarrow 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% hholds 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

Comment 2: Reporting error (cont.)

1. Is CEX measure of gambling externally valid?
 - Can be extrapolated to other settings?
 - How does gambling (extensive and intensive margins) correlate w/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”