The Psychology of Poverty

(WWS 404(5))

Spring 2015

Location and Time: M 1.30-4.20pm, location: Bendheim Hall 012

Professor: Johannes Haushofer, haushofer@princeton.edu

Office: Peretsman-Scully Hall 427. Office Hours: email Tina Mccoy (tmmccoy@princeton.edu) for an appointment.

Course overview

This course explores the relationship between poverty, psychology, and economic choice. In particular, we will ask whether poverty has psychological consequences, and whether these, in turn, affect economic decision-making. The course draws on material and methods from psychology, neuroscience, behavioral economics, and development economics, including both lab and field experiments in both developed and developing countries. We will pay particular attention to causal identification of treatment effects, and place emphasis on reading papers critically, forming an educated opinion on the state of knowledge across a group of papers, identifying gaps in the literature, and developing research ideas and designs to address these gaps.

Prerequisites

Participation requires a willingness to engage with advanced readings in psychology, neuroscience, and economics. This class, in contrast to its closely related counterpart in the psychology department, assumes a certain level of mathematical preparation. In particular, students should have taken introductory econometrics, and be familiar with multivariate regression, regression discontinuity.
designs, instrumental variables, and the econometrics of randomized experiments. In addition, students should have taken intermediate microeconomics or intermediate macroeconomics, and be familiar with constrained optimization.

Grading

The course grade will be based on the following components:

Class participation (35%)

Class attendance (10% of research seminar grade)

Students can miss class twice without penalty; each absence beyond the second leads to an F grade on class attendance. Similarly, students can be more than 5 minutes late to class twice without penalty; each lateness beyond the second leads to an F grade on class attendance. Medical absences and lateness are exempt from these penalties, but require a doctor’s note.

Written paper reactions (25% of research seminar grade)

Students are expected to bring to each class two typed and printed questions or comments on the required readings for the respective class. These assignments should begin with the student’s own name, and be followed by the reference for the first paper being discussed (e.g. Mullainathan & Shafir, 2013), and a question or comment on that reading (word limit: 100 words); likewise for the second reading. Questions are likely to benefit from being explained in additional sentences. Both questions and comments should illustrate either the student’s depth or breadth of thinking about the paper, and should illustrate engagement with that specific paper, rather than be generic. Questions should depart from a basic understanding of the paper, rather than establish it in the first place. Comments should be based less on personal taste than on reasoned argument.

Paper presentation (25% of research seminar grade)

Each student will give a 30-45 minute presentation of one paper in class. This presentation consists of three components: a succinct summary of the findings; a critical appraisal of the paper in the context of the literature (this will require reading not only the assigned paper, but also the related literature); a class discussion led by the student.
Research proposal presentations (40% of research seminar grade)

Each student will develop the motivation and design for an empirical research project as part of the course. To give students freedom to explore their interests while keeping the topic reasonably close to the material discussed in class, the only thematic constraint is that an economic variable has to be among either the dependent or independent variables of the project. For instance, students might propose to study the effect of cash transfers on psychological well-being (economic independent variable), or the effect of psychological counseling on risk preferences (economic dependent variable), etc.

Students give two presentations about their research proposal: a short and a long one. The short presentation is 15 minutes plus 15 minutes of questions. The long presentation is 30 minutes plus 15 minutes of questions. The short presentation counts for 15% of the research seminar grade; the long presentation counts for 25%.

The presentations should be structured as follows:

1. Motivation
2. Research question (this is a sentence that ends with a question mark)
3. Experimental design
   (a) Sample size (power calculation)
   (b) Setting
   (c) Identification strategy (how will you get at causality?)
   (d) Description of intervention or natural experiment
4. Dependent and independent measures
5. Hypotheses
6. Discussion, extensions, questions for the audience

Based on the project idea developed in these presentations, students write their Junior Paper. This assignment will take the form of an introduction and methods section for a research paper. The Junior Paper is graded separately from the research seminar. The junior paper should contain the same elements as the research proposal presentation, save for the discussion.

Reading List

All readings are required unless marked otherwise. Readings marked with * are eligible for student presentations.
Week 1: Organizational meeting, Overview, Historical background

Required


Optional

Moynihan (1965). The Negro Family: The Case For National Action. Office of Policy Planning and Research, United States Department of Labor. *Note: This paper should be read critically and as a historical document. The class will discuss in depth the charges of racism other researchers have brought against it.

Week 2: Theoretical perspectives

Required


Optional


Week 3: Correlational evidence: Poverty and psychological well-being

Required


Optional


Week 4: Causal evidence: Poverty and psychological well-being I

Required


Optional

**Week 5: Causal evidence: Poverty and psychological well-being II**

**Required**


**Optional**


**Week 6: Poverty and economic choice I**

**Required**

* L. Carvalho, S. Meier, S.W. Wang, Poverty and economic decision making: evidence from changes in financial resources at payday. Center for Economic and Social Research Working Paper (2014)

Optional


J.L. Pender, Discount rates and credit markets: theory and evidence from rural India. J. Dev. Econ. 50(2), 257-296 (1996).

L. Guiso, M. Paiella, Risk aversion, wealth, and background risk. J. Eur. Econ. Assoc. 6(6), 1109-1150 (2008).

Week 7: Poverty and economic choice II

Required


Optional


Week 8: Psychological effects on economic choice: Risk preferences

Required


Optional


M. Mather, M. Gorlick, N. Lighthall, To brake or accelerate when the light turns yellow? Stress reduces older adults risk taking in a driving game. Psychol. Sci. 20(2), (2009).


Week 9: Psychological effects on economic choice: Time preferences

Required


Optional


Week 10: Mechanisms for the effect of stress and affect on economic choice

Required


Optional


Week 11: Interventions on economic choice

Required


Optional


Week 12: Interventions on psychological well-being

Required