

Can we Train Ourselves to Become More Patient, Less Risk Averse and Less Impulsive? A Field Experiment

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Abstract:

The difference in probabilities to experience poverty between individuals who have been poor in the last year and those who have not - i.e. state dependence - increased for the working-age population in Germany between the beginning of the 1990s and the onset of the global financial crisis. In contrast, state dependence decreased in Great Britain, due to increasing exit probabilities from poverty. The paper analyses the role played in these developments by observed and unobserved heterogeneity, as well as true state dependence, using dynamic pooled and random effects probit models. In Britain, a reduction in the direct effect of last years' poverty on current poverty status contributed to reduced state dependence, but there was also a favourable development of observed characteristics among the poor. In contrast, no increase of true state dependence is found for Germany, while changes in the distribution and effects of observed characteristics explain part of the increased persistence of poverty.