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Saving, Spending and Stealing

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Some interesting behavioral economics pieces on the ways that we think about money and temptation:

Big bills: Want to spend less cash? Keep larger bills in your wallet, a new paper finds.

The paper found that people are less likely to make a purchase if they're carrying one large denomination of cash rather than many smaller denominations equal to the same amount of money (a $20 bill versus 20 $1 bills, for example). The paper, forthcoming from the Journal of Consumer Research, is built on observations of the behavior of American undergraduates, adult drivers at a Midwestern gas station and women consumers in China.

People are more reluctant to spend when carrying larger denominations, Priya Raghubir of New York University and Joydeep Srivastava of the University of Maryland say, largely because breaking a big bill accentuates the "pain of paying." The study suggests that requesting payments in larger bill denominations could be a useful strategy for resisting spendthrift temptations.

When people do decide to break a big bill, though, they tend to spend more than they would have if they had been carrying smaller denominations — a phenomenon the authors call the "what the hell" effect (also known as "in for a penny, in for a pound").

Rocks for Refs: Lee Gainer, an artist based in Washington, has created an interesting series called "Two Months Salary." Each print lists a profession (anesthesiologist, farmer, referee, etc.), and then shows images of the engagement rings that people in that profession could afford to purchase if they used up two months' worth of their wages — the rule of thumb some jewelry sites recommend. (Hat tip: Ezra Klein)

How to get the most out of a liquidation sale: Kiplinger.com has an article with tips for when to buy products during a liquidation sale. The author, Jeff Bertolucci, says to be patient and wait until the best deals come, which usually happens later in the liquidation process.

An article from This American Life, however, indicates that waiting *too* long could result in paying for overpriced merchandise. According to that report, Circuit City hired professional liquidation services to manage the last days of the chain. The liquidators actually *raised* prices, since they knew consumers who mobbed the stores would (wrongfully) assume that whatever price they saw at a closing store was a steal.

They don't do it for the money: Traditional economics would predict that those most likely to commit crimes are those who have the least to lose. If you can make a lot of money *legitimately*, why put those earnings at risk with illegal activities that might get you thrown in jail?

Applied to white-collar crime, this means that you'd expect poorer managers to be more likely to commit insider trading than a richer manager if caught and convicted for financial crimes. But according to a recent paper, this is not true.

A recent paper from Utpal Bhattacharya and Cassandra Marshall, both of Indiana University, looked at data on insider-trading crimes from 1986 to 2002, and compared the convicted criminals to top managers of public firms who had not engaged in insider trading.

They found that insider-trading convictions are concentrated among richer managers. This was true, the economists say, even after controlling for firm size, industry, the potential profits to be made from a given illegal trade, and the possibility that regulators may focus their efforts on the biggest, highest-profile fish.

So what accounts for this irrational behavior? Perhaps hubris, the authors say, or a given company's culture — but whatever it is, the economists write, a "deeper exploration of these motives is beyond the scope of" their research.