Hailing Vessels and Dropping Anchors: Plotting the Anchor-and-adjustment Heuristic Against Peer Effects
by Verhallen, Brüggen, Post, Odekerken-Schröder

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Aim of the paper

To identify the role of “peer effect” vs “anchoring effect” in determining the choice about the contribution rate to voluntary pension funds.
• **Peer effect:**

“[...] channel of persuasion, inducing changes in behavior by providing behavioral information about peers, that is, individuals sharing one or more characteristics. When behavior of peers is made salient [...] individuals are driven to social conformity, to conform to what others do, or what others approve or disapprove of doing, through their informational goal of accuracy and their normative goal of affiliation”
Anchoring effect:

“decision shortcut occurring when an individual has to make an estimate after exposure to a provided or self-generated initial value – an anchor – thereafter insufficiently adjusting away from this anchor [...]” or initial exposure to a number serves as a reference point and influences subsequent judgments about value. The process usually occurs without our awareness [...] and sometimes it occurs when people’s price perceptions are influenced by reference points.

Examples: (initial price in) sales and bargaining in second-hand car market; prosecutor’s demand about punishment on judge’s sentence; etc.
“Could the results from peer effect studies be driven by a mere anchoring effect as opposed to social conformity?”
The paper: Answer

Two financial decision-making experiments (about the contribution rate to pension funds), where subjects are placed in hypothetical retirement scenarios.
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- **Study 1**: 3 groups
  - **Control condition**: only hypoth. scenario
    (You have just graduated from ABC college and have landed your first job, earning you an annual gross salary of USD 45,000. You are single and have no children, and are therefore able to allocate this salary as you wish)
  - **Peer effect (+anchoring) condition**: also relevant numeric value
    (Other recent ABC college graduates contribute 11% of their salary to their pension fund)
  - **Anchoring condition**: also irrelevant numeric value
    (Among ABC college graduates, 11% have a similar job)
The paper: Answer

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• **Study 2**: extensions to low/high peer and anchoring effect; new variation of anchoring condition (7 groups in total)
The paper: Main findings

• Anchoring and peer effect lead to similar results: reduce the variance in subjects’ behavior, and direct the behavior towards the presented value (study 1).

Average contribution rate is, however, similar to the average one in the control group

• When values are more extreme, i.e. far from the mean in the control group (study 2), only the peer effect remain significant (while the anchor effect is not)
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• Comment: you find that “only the mean contribution rate of the peer effect group is significantly different from the 11 percent norm […]. The mean contribution rate of the anchoring effect group is not significantly different from the 11 percent anchor […].”

→ How to conciliate the two statements above?

• When values are more extreme, i.e. far from the mean in the control group (study 2), only the peer effect remain significant (while the anchor effect is not)
Does the statement: “Among ABC college graduates, 11% have a similar job” properly capture the anchoring effect?

(from def. of anchoring effect: “exposure to a provided or self-generated initial value – an anchor” “exposure to a number serves as a reference point and influences subsequent judgments about value”)
Does the statement: “Among ABC college graduates, 11% have a similar job” properly capture the anchoring effect?

(from def. of anchoring effect: “exposure to a provided or self-generated initial value – an anchor” “exposure to a number serves as a reference point and influences subsequent judgments about value”)

Underlying assumption: showing a number, referred to any irrelevant context, provide an “anchor”, which has an impact on individual behavior.

→ What if we show the sentence “Europe has a total population of about 11% of world population”? 
The paper: Comments II

Hypothetical scenario (stated preferences) Vs observed behavior in lab (more common in behavioural economics)

• Why do you choose this approach?
• Which advantages/disadvantages?
Hypothetical scenario (stated preferences) Vs observed behavior in lab (more common in behavioural economics)

• Why do you choose this approach?
• Which advantages/disadvantages?

• Could you show descriptives on the three different groups (and possibly test they are balanced)?
Comments III

How should we read these numbers?

Table 2
Mean contribution rate across treatment groups in study 1.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean contribution rate (S.D.)</th>
<th>Mean distance to the 11% norm/anchor (S.D.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>102</td>
<td>12.412 (8.932)</td>
<td>6.137 (6.615)</td>
</tr>
<tr>
<td>Anchor</td>
<td>93</td>
<td>10.269 (5.408)</td>
<td>3.699 (3.004)</td>
</tr>
<tr>
<td>Peer</td>
<td>100</td>
<td>12.050 (5.219)</td>
<td>4.553 (3.782)</td>
</tr>
</tbody>
</table>
Comments IV

• (Economic) consequences of these findings for choices about contribution to private pension plans

• External validity (about reference value, etc.)

• Policy implications:
  • Anchoring: Default contribution rate (related to literature on default effect)?
  • Peer effect: (externalities of) policy interventions at workplace?

• Gender heterogeneity: how to interpret it? Heterogeneous saving rate? Risk aversion? Intertemporal discount rate?
Minor comments: improve clarity

• What does Study 2 allow us to learn (wrt Study 1?): state it more explicitly! Which theoretical framework?

• What is the Consumer’s Susceptibility to Interpersonal Influence (CSII)? How is it constructed? Self-reported? What do we learn about its correlation to the results (from an economic point of view)?

• Mention the application to the choice on contribution to pension funds in the Introduction and explain why identifying peer Vs anchor effect is important in this framework (contribution to private pension schemes)
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