Decision Processes Colloquia

Monday, March 11, 2019

Where: 340 JMHH

When: 12:00 – 1:20 pm

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Does Financial Strain Lower Worker Productivity?*

ABSTRACT:

The idea that the experience of being poor itself could lower one's income has relevance for understanding the persistence of poverty. In this paper, we empirically test whether there is a direct relationship between cash on hand and worker productivity. We randomize the timing of income receipt among Indian workers who earn piece rates for manufacturing tasks: some workers receive their earned wages on earlier dates—altering when cash constraints are eased but holding overall wealth constant. Workers increase productivity by 5.4% on average in the days after cash receipt; effects are concentrated among lower income individuals, who increase output by 9%. This effect of cash on productivity cannot be explained by mechanisms such as career concerns, gift exchange, or nutrition. Rather, we present positive evidence that productivity increases are mediated through lower attentional errors in production—indicating a role for improved cognition after cash receipt. In addition, we use a salience intervention to direct workers' attention to their financial constraints. Output is 5% lower if workers are reminded of their finances when they are cash-poor relative to when they are cash-rich (i.e. after cash receipt). Our results indicate a direct relationship between financial constraints and productivity, and suggest that psychological channels mediated through attention play a role in this relationship.

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