

## Internet Appendix A34: Behavioural Economics

Figure A34.1 Illustrative Pitch Template Example

<b>Pitcher's name</b>	Ross Skelton	<b>FoR category</b>	Behavioural Economics	<b>Date completed</b>	30/6/2014
<b>(A) Working Title</b>	"The Impact of Home Loan Key Fact Sheets on Borrowers' Judgments of Loan Suitability"				
<b>(B) Basic Research Question</b>	Do the Australian Government's 'Home Loan Key Facts Sheets' effectively aid borrowers in comparing the estimated loan cost and, through this, improve loan choice?				
<b>(C) Key paper(s)</b>	Tversky, A., & Kahneman, D. (1974). Judgment under Uncertainty: Heuristics and Biases. <i>Science</i> , 185(4157), 1124-1131. Fishburn, P. C. (1974). Lexicographic Orders, Utilities and Decision Rules: A Survey. <i>Management Science</i> , 20(11), 1442-1471. Malhotra, N. K. (1982). Information load and consumer decision making. <i>Journal of Consumer Research</i> , 419-430. Payne, J. W., Bettman, J. R., & Johnson, E. J. (1993). <i>The adaptive decision maker</i> : Cambridge University Press.				
<b>(D) Motivation/Puzzle</b>	<p>This study is motivated by the assumption behind KFSs: that poor loan choice is due, at least in part, to the ineffective disclosure of mortgage terms to borrowers in the pre-contracting stage where they compare the available loan options and that this negatively effects competition between lenders. This research in consequence seeks to test whether the terms and format now prescribed by KFSs advance borrower understanding for purposes of comparative decision making. In short, for the KFSs to successfully promote better decision making, this thesis seeks to verify that:</p> <ul style="list-style-type: none"> <li>- Policy makers correctly identified a core issue;</li> <li>- The information contained on the KFSs is being utilized by people who seek to select the cheapest loan.</li> </ul>				
<b>THREE</b>	<b>Three core aspects of any empirical research project i.e. the "IDioTs" guide</b>				
<b>(E) Idea?</b>	<p><b>Core Idea:</b> Decision makers often avoid performing comprehensive searches or calculations in order to economize on time and effort. They therefore settle for more accessible information over information that would improve the accuracy of their decision but requires more time and effort to consider. By making a highly correlated and arguably key variable, such as total estimated cost of a loan, easily accessible to a borrower at the time when they are deciding on a loan, the KFSs should increase the likelihood borrowers will consider this variable (as they do not have to calculate it) and through this increase their decision accuracy and reduce decision time.</p> <p><b>Central Hypotheses:</b> People utilizing the KFSs will be identifying the cheapest loan from among alternatives more often. Participants utilizing the KFSs will make decisions more quickly.</p> <p><b>Tension:</b> There is a tension between the magnitude of the differences in costs resulting from the decision and the time and effort required to make better decisions.</p>				
<b>(F) Data?</b>	<p>(1) <b>Country/setting:</b> Australia. <b>Why?</b> The laws have been passed which allow the theoretical principles behind the intervention's design, underlying principles and overall regulatory approach, to be analysed in practice. While this is not as relevant for the experiment aspect of the study, however is vital for the proceeding stages. <b>Unit of analysis:</b> Experiment: Individual Responses. <b>Sample period:</b> The experiments will be conducted over a 2 week period with several sessions to account for the required numbers. <b>Sampling interval:</b> Sampling will be conducted in the same period (starting and ending a few days prior to the experiments sessions to increase the chance of achieving adequate participation).</p> <p>(2) <b>Sample Size:</b> 112 participants – four groups of 28 (resulting from power calculations).</p> <p>(3) <b>Data Sources:</b> The data is collected via computer software. Several experiment sessions are run over the course of two weeks to accommodate for numbers and payment for performance? Preferably a blind third assistant can host the experiment – if not contact with the experiment person will be minimal. <b>Funding:</b> Funding for participant incentives is provided by the university.</p> <p>(4) <b>Will there be any problem with missing data/observations?</b> The computer software will validate responses and require key data to be enter and to within an acceptable format/number range.</p> <p>(5) <b>Will your "test" variables exhibit adequate ("meaningful") variation to give good power?</b> Yes. The study follows several studies on decision making processes and measures the accuracy and time of the decision as measures of decision quality.</p>				
<b>(G) Tools?</b>	Basic empirical framework and research design: Experimental design. SPSS will be used to analyse and a software program called 'Coral' used to collect responses.				

<b>TWO</b>	<b>Two key questions</b>
<b>(H) What's New?</b>	The novelty is in the instrument. By testing the current design of the KFSs used in force the research can compare test the underlying principles, as well as whether the actual design will work. While several designs have been tested, the content, format, terminology and layout of the KFSs differ from these. As prior literature has found these variables to have a significant impact on the effectiveness of summary documents, it is important to test that the current design has correctly applied the principles found to be effective in testing of similar designs.
<b>(I) So What?</b>	<p>The generation of this information should hold multiple benefits including whether:</p> <ol style="list-style-type: none"> <li>1) this format and content of key loan term disclosure helps Australian borrowers make better loan decisions in practice;</li> <li>2) behavioural or other obstacles, prevent the instrument's effectiveness and, if so, potential directions forward for correcting this in future contexts;</li> <li>3) More broadly, through contributing to the surrounding literature whether the previous prototype disclosure used to guide the creation of the KFSs may be extrapolated out to more general decision making paradigms in other parallel fields.</li> </ol> <p>This information may also be applied more broadly as general insight for regulating other complex products, especially financial products, and competition in the related markets. As it deals with the presentation of information as well as decision making the findings may provide useful into several fields including, but not necessarily limited to, economics, law, health, psychology and marketing.</p>
<b>ONE</b>	<b>One bottom line</b>
<b>(J) Contribution</b>	Provides insight into the relationship between the significance and accessibility of information; determines whether the proposed solution and its underlying principles works at a fundamental level; and tests the effectiveness of instrument currently in force. These results can also be combined with results looking at market trends and consumer uptake to allow for a holistic evaluation of the regulations strengths and weaknesses and help identify specific areas in need of improvement.
<b>(K) Other considerations</b>	<p><b>Collaboration:</b> N/a</p> <p><b>Target Journal(s)?</b> Journal of Banking and Finance Law and Practice – this is realistic as a similar piece was published in this journal, and formed the basis for much of the regulators justifications for the legislation.</p> <p><b>Risks</b></p> <p><b>No result:</b> Low, whether the legislation works or not, the study will provide useful insight into the decision making processes people use when decision on a home loan and the effectiveness of the legislation;</p> <p><b>Competitor:</b> Medium. I believe this is always an issue.</p> <p><b>Obsolescence:</b> Low – Decision making is a vital field, so those findings will always be useful. The use of KFSs may become less impactful as time goes on, however as the legislation is in force and it is a cost to lenders to ensure the extra information is available, until the effectiveness is determined it should still hold some contextual value.</p> <p><b>Other risks:</b> There are no other foreseeable risks to the study and its validity.</p>