

The Effect of Cognitive Ability on Consumption Behavior

Xiaojia Zhang
Boston University, USA

Keywords

Consumption behavior, financial literacy, numerical ability, experiment

Abstract

Does consumers' numerical ability and financial literacy affect their consumption behavior? The answer might be yes since economists found out that the correlations between numerical ability and various aspects of pension arrangements are stark and persist (Banks and Oldfield 2006). Researchers have shown that those who are more numerate accumulate financial assets at a faster rate in years approaching retirement and decumulate it at a faster pace after retirement (Banks, O'Dea and Oldfield 2010). To study the correlation between people's cognitive ability and their consumption behavior, I carried on an experiment among 112 randomly selected students in Boston University. The students were asked to provide their consumption choice in a given circumstance. They were also provided questions to test their numerical ability and financial literacy. My results show that subjects with higher financial literacy spend less. And in contrast to previous literature, my results show that subjects who are less numerate accumulate financial assets at a faster rate in years leading to retirement and decumulate it at a faster pace after retirement.
