Discussion of
Psychology of Poverty, Hope and Aspirations

June 2016

NBER - The Economics of Asset Accumulation and Poverty Traps

Rachid Laajaj

University of Los Andes

Depression for Economists

Johannes Haushofer
(Princeton) and Jon
de Quidt (Stockholm University--IIES)

Great contributions

- Stated goal of writers is to give economists a **framework** for thinking and writing about **depression** using the language of economics.

- Rather successful: Bring in **literature on depression** from psychology, and suggestions about how to translate this into economics language

- **Theoretical model** is very **elegant**, and very "**efficient**": illustrates lots of mechanisms and many predictions with a pretty simple framework

My greatest frustration

- The author's claim: depression = pessimistic beliefs about returns to effort
- Very careful description of the many symptoms of depression, each one followed by how much it fits into the proposed framework
- Problem is sometimes feels too much of a stretch needed to make it fit

From depression to beliefs about one's return to efforts

Beck's list of symptoms	Authors link to beliefs	Comments / Alternative view
Low self-evaluation or self esteem – self-blame - Negative feelings towards oneself	Congruous	Mostly OK
Negative expectations about the future	Congruous	pessimism ≠ low return to effort
Reduction in gratification – loss of emotional attachments	Loss of socio-emotional returns (nuanced)	Flatter utility (discourages effort) – low aspiration
Paralysis of the will – Indecisiveness – dependency on others	Believe all acts lead to bad consequences	Higher cost of effort (preferences)
Dejected mood – crying spells – suicidal wishes	Consequences of low returns and realization	OK – depression requires oversensitivity?

A very elegant model, at some costs

- "**Efficient**" model: **tractable** while bringing lots of **insights** (e.g. revert to **natural tendencies**)

- The production function does not **distinguish neutral pessimism from change in expected return** (multiplicative).

- Choice of **quasi-linear utility** comes at some costs:

Only **solved for c*>0** makes all resolution much simpler but:

- No **risk aversion**: does it matter?

- **Excludes the poor**, who in the worse realizations of epsilon would not have enough to reach **optimum food** consumption

  - Fraction excluded depends on possible **range of epsilon**
  - Bayesian: epsilon has **normal distribution** > always some c*=0

- **Poverty trap** only happens in extreme conditions

Issues related to beliefs adjustments as represented

- Requires **non-observability of the shock**, (contrasts with many examples in the literature.
- **"egocentric notion of causality"**, but not depressed yet (unless this is a predisposition)
- Why do I update **beliefs on myself** as a whole rather than this form of effort/economic **activity**?
- **Weigh** on prior is a function of **cumulated experience**: should happen much less to experienced people
- **Depression** is inferred precisely when a person has **beliefs below reasonable expectation**, so conceptually too restrictive to put it into a rational **Bayesian** belief story. Do we **lose the essence of the concept** of depression?
- Footnote: **non-Bayesian** update: then **why** this happens? Related to some people having a **predisposition**, emotionally more fragile. We may need **less standard economic tools** again, drawing on more recent interest in **socio-emotional** skills.

Can we make it broader?

- **Adding preferences** should be feasible at a limited cost: **depression flattens utility**: very similar effect to flattening response of production when μ goes down.
- Adds a **cost of effort** that can be affected by depression(or just doesn't move when its response goes down)

These 2 changes can incorporate much more symptoms

- Be even **more ambitious**: better related depression to the growing socio-emotional skills literature:
- Clear references to **LOC, self-efficacy** at least, but others

Our work in **Kenya** (with K. Macours) shows:

- **CESD** one of the most **reliable** socio-emotional skills
- **Correlates** most with neuroticism, metacog, LOC, self-conf.

- Can depression/emotional resilience be a **key cause of covariance** between different socio-emotional skills?

Poverty, Aspirations, and the Economics of Hope: A Framework for Study with Preliminary Results from the Oaxaca Hope Project

Bruce Wydick (U. San Francisco) and

Travis Lybbert (UC-Davis)

A hybrid paper

- A **review** of the literature that could be a paper on its own
- A **theoretical** model, and its application in **field experiment**
- Clarification hope1 vs hope2 (useful to previous paper)
- Depression is related to **depletion** of hope / LOC / self-efficacy, etc.
- Need to be coherent from definition of **concepts**, to its **mathematical representation** and its **measure**. Not so common that all the steps are done carefully.

The theoretical model: utility function

- Utility function: "falling short of the aspiration may be experienced psychologically as a shock". Shouldn't there be a **discontinuity at A**?

- The time dimension is important in how hope shapes utility: long anticipation, achievement time, after achievement. High/low hope people may differ in how they bear these different phases > relation to risk aversion and patience.

Hopefulness in a model…

- Alternative ways when it fails: could allow them to have **multiple draws of π_v**. Whenever it is a bad draw, they **can try alternatives x times**, which increases average payoff and reduces reliance on luck.

- Because most of it **happens in the brain**, we cannot be sure it has this **functional shape**.

- How are the results subject to small **variations in modeling**?

Empirical preliminary results

- Interesting but still **fragile**. Especially if it does not translate into significant economic improvements, are they just **repeating what they were told** in trainings?
- Because the model has **many parameters in hope**, hard to know **what the intervention moves**
- Nice venue: **use theoretical decomposition of hope**, and watch the **dynamic of how it changes**, -- Some parameters can change with messages and observations of others (e.g. aspiration),
- - Other parameters may require one's own experimentation (e.g. self efficacy).

Should we try to move aspirations directly?

- According to your theoretical model (and a few others), **aspirations too high may reduce utility**

- Potential **psychological costs** (reasons to keep aspirations low)

- Potential **economic costs** (everyone believes they are as good as the top of the distribution > losses)

- We **don't know** whether their expectations are truly below what it should be.
- Is there real **lack of aspiration** or **opportunities** (e.g. 3x3 scale)?
- Should we try to **raise aspirations directly** (as if we knew better), or just try to **allow them to experiment**, so that they update beliefs?