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Income Timing, Temptation and Expenditures: A Field Experiment in Malawi

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Abstract
The canonical model of expenditure choices assumes that people are able to smooth their consumption. However, extensive empirical and theoretical work suggests that consumption smoothing is imperfect, so the precise timing of individuals' income may affect their behavior. We report results from a randomized field experiment in Malawi that varied the timing of workers' income receipt in two ways. First, payments were made either in weekly installments or as a monthly lump sum, in order to vary the extent to which workers had to save up to make profitable investments. Second, payments at a local market were made either on the weekend market day (Saturday) or the day before the market day (Friday), in order to vary the degree of temptation workers faced when receiving payments. We provide novel evidence that the frequency of payments matters for workers' ability to benefit from high-return investment opportunities. Workers in the monthly group have more cash left in the week after the last payday when the lump sum payment was made. Moreover, they are 9.5 percentage points more likely than the weekly payment group (mean of 6.3%) to invest in a risk-free short-term "bond" that required a large payment and that was offered by the project in the week after the last payday. We argue that this result is driven by the lump sum group's decreased savings constraints relative to the weekly payment group. In contrast, despite anecdotal evidence and suggestive survey data that, in this study's context, market days increase the temptation to overspend, being paid at the site of the local market on Saturday compared to Friday did not strongly matter for expenditure levels or temptation spending.

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