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When Commitment Fails –
Evidence from a Field Experiment*

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Commitment products can remedy self-control problems. However, imperfect knowledge about their preferences may (discontinuously) lead individuals to select into incentive-incompatible commitments, which reduce their welfare. I conduct a field experiment where low-income individuals were randomly offered a new installment-savings commitment account. Individuals chose a personalized savings plan and a default penalty themselves. A majority appears to choose a harmful contract: While the average effect on bank savings is large, 55 percent of clients default, and incur monetary losses. A possible explanation is that the chosen penalties were too low (the commitment was too weak) to overcome clients' self-control problems. Measures of sophisticated hyperbolic discounting correlate negatively with take-up and default, and positively with penalty choices – consistent with theoretical predictions that partial sophisticates adopt weak commitments and then default, while full sophisticates are more cautious about committing, but better able to choose incentive-compatible contracts.

Keywords: commitment, hyperbolic discounting, partial sophistication
JEL classification: C93, D03, D14, O12

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