EXPONENTIAL-GROWTH BIAS AND LIFECYCLE CONSUMPTION

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Abstract
Exponential-growth bias (EGB) is the tendency for individuals to partially neglect compounding of exponential growth. We develop a model wherein biased agents misperceive the intertemporal budget constraint, and derive conditions for overconsumption and dynamic inconsistency. We construct an incentivized measure of EGB in a US-representative population and find substantial bias, with approximately one-third of subjects estimated as the fully-biased type. The magnitude of the bias is negatively associated with asset accumulation, and does not respond to a simple graphical intervention. (JEL: D03, D11, D12, D14, D18, D91, E21)

Keywords: Exponential-growth bias, dynamic inconsistency, personal finance, overconsumption, lifecycle consumption.

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