

# University of Wyoming

1000 East University Ave.

Laramie, Wyoming 82071

Econ 4240

History of Economic Thought

---

## Why Give? The Behavioral Economics of Charitable Giving.

Brackett, Samuel

April 24

Abstract:

Donations are important for the long-term survival of many institutions. However, it is still uncertain exactly why it is that people choose to donate. Behavioral economics combines economics with psychology to better understand how humans make choices in markets. This research project focuses on the psychology of charitable giving, nudges, and the impact of natural resource rents on charitable giving. Without understanding individuals, it is impossible to understand why they donate. Nudges seek to take what has been learned about individuals to manipulate them into behaving the way policy makers desire. Natural resource rents are another facet to consider in determining how people behave. The main question of this research paper is if charitable giving is decreased by large natural resource rents in a state.

## **Introduction:**

Donations are important for the long-term survival of many institutions and organizations and the reasoning behind why people choose to donate is currently a hot research topic in many academic fields. One notable field, behavioral economics, combines economics with psychology to better understand how humans make choices in markets, including the choice of individuals to charitably give; this paper focuses on the psychology of charitable giving, nudges, and whether natural resource rents affect statewide per capita and per income donations. Studies have shown that many factors attribute to why individuals charitably give including personality traits such as altruism or sympathy biases, and outside effects such as peer-pressure or deadlines. Nudges are policies implemented to try and “nudge” the population into behaving as policy makers want them to, often manipulating individuals into acting against their natural desires. Research into nudges is working to manipulate people into acting against their own self-interest and act instead for the good of the whole. Charitable giving is a current, heavily studied, aspect of behavioral economics. What this paper will investigate is if heavy financing from natural resource rents decreases the amount of donations an institution or organization will receive.

## **Background Information:**

Many personality traits affect how frequently individuals donate and the size of their donations. One such personality trait is altruism, which is selflessness and self-sacrifice in leu of the greater good. Recent study has shown that very few true altruists exist, but for individuals who are true altruists, the amount which they donate, or the frequency of their donations cannot be influenced by nudges.<sup>1</sup> Unfortunately, not many individuals in society are true altruists and it

---

<sup>1</sup> Bachke, Maren Elise, Frode Alfnes, and Mette Wik. "Information and donation to development aid projects." *Journal of Behavioral and Experimental Economics*, 23 Apr. 2016.

is the rest of society whom policy makers most consider nudging. One such individual is those who donate with the intention of feeling better about themselves afterwards.<sup>2</sup> These individuals most often will not donate unless there is a response, such as a merchandise or acknowledgement, which they receive that makes them feel good or gives them a feeling of warm-glow. Seekers of warm-glow tend to be the most volatile in their giving because the warm-glow feeling wears off quickly. Although some of these individuals continue to give, they are likely to give their donations to another institution for the feeling of a new warm-glow because the old institution cannot provide a significant warm-glow again.<sup>3</sup> Another type of personality trait is reluctant altruists, who in situations where donations are not done independently feel a pressure from others to be more altruistic than they truly are.<sup>4</sup> Reluctant altruists are likely to give a higher donation during that time but are highly unlikely to donate again.<sup>5</sup> The last behavioral failure which will be specifically pointed out in this paper is sympathy bias, which is often target by institutions, as exploiting it increases donation frequency and amount. Sympathy bias is the phenomenon in which one individual feels sympathy for another, due to similar social class, standing, religion, etc. and acts outside of their normal behavior because of the perceived similarity they feel. K. Sudhir, Subroto Roy, and Mathew Cherian found that by targeting sympathy bias, individual's donation rates can increase from 51% – 300% and in some instances

---

<sup>2</sup> Karlan, Dean, and Daniel H. Wood. "The effect of effectiveness: Donor response to aid effectiveness in a direct mail fundraising experiment." *Journal of Behavioral and Experimental Economics*, 16 June 2016.

<sup>3</sup> Karlan, Dean, and Daniel H. Wood. "The effect of effectiveness: Donor response to aid effectiveness in a direct mail fundraising experiment." *Journal of Behavioral and Experimental Economics*, 16 June 2016.

<sup>4</sup> Reyniers, Diane, and Richa Bhalla. "Reluctant altruism and peer pressure in charitable giving." *Judgment and Decision Making*, Jan. 2013.

<sup>5</sup> Reyniers, Diane, and Richa Bhalla. "Reluctant altruism and peer pressure in charitable giving." *Judgment and Decision Making*, Jan. 2013.

increased the number of donors by as much as two and a half times when the ones receiving the donation were perceived to be of similar origins, backgrounds, and religions.<sup>6</sup>

Many nudges have been tested to see which ones are most effective in increasing charitable giving. Some examples of these nudges are peer-pressure, deadlines, charity choice, access to information, solicitation, and notification. Nudges are tested to see how they affect charitable giving, both negatively and positively. For instance, one study found that peer pressure creates reluctant altruism.<sup>7</sup> Deadlines were tested to see their influence on donations, which created individuals who either donated immediately or not at all.<sup>8</sup> Charity choice showed a small, almost insignificant increase in donations.<sup>9</sup> As opposed to charity choice, one very effective nudge is information. When information is provided by the institution on what the money goes towards, who is affected, etc. then it is highly likely that an individual will donate a larger amount, vice versa, little information caused smaller donations.<sup>10</sup> Two last effective

---

<sup>6</sup> Sudhir, K., Subroto Roy, and Mathew Cherian. "Do Sympathy Biases Induce Charitable Giving? The Effects of Advertising Content." *Marketing Science*, Nov. 2016.

<sup>7</sup> Reyniers, Diane, and Richa Bhalla. "Reluctant altruism and peer pressure in charitable giving." *Judgment and Decision Making*, Jan. 2013.

<sup>8</sup> Damgaard, Mette T., and Christina Gravert. "Now or never! The effect of deadlines on charitable giving: Evidence from two natural field experiments." *Journal of Behavioral and Experimental Economics*, 22 Apr. 2016.

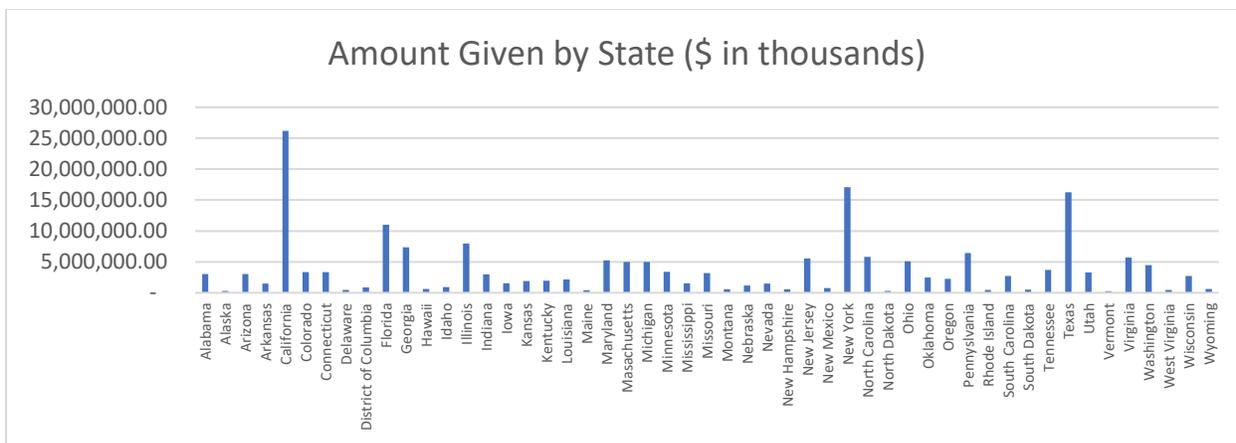
<sup>9</sup> Brown, Alexander L., Jonathan Meer, and Forrest J. Williams. "Social distance and quality ratings in charity choice." *Journal of Behavioral and Experimental Economics*, 20 Apr. 2016.

<sup>10</sup> Bachke, Maren Elise, Frode Alfnes, and Mette Wik. "Information and donation to development aid projects." *Journal of Behavioral and Experimental Economics*, 23 Apr. 2016.

nudges are flyers and face to face solicitation, both of which show an increase in donation with high and low increases, respectively.<sup>11 12</sup>

**Research:**

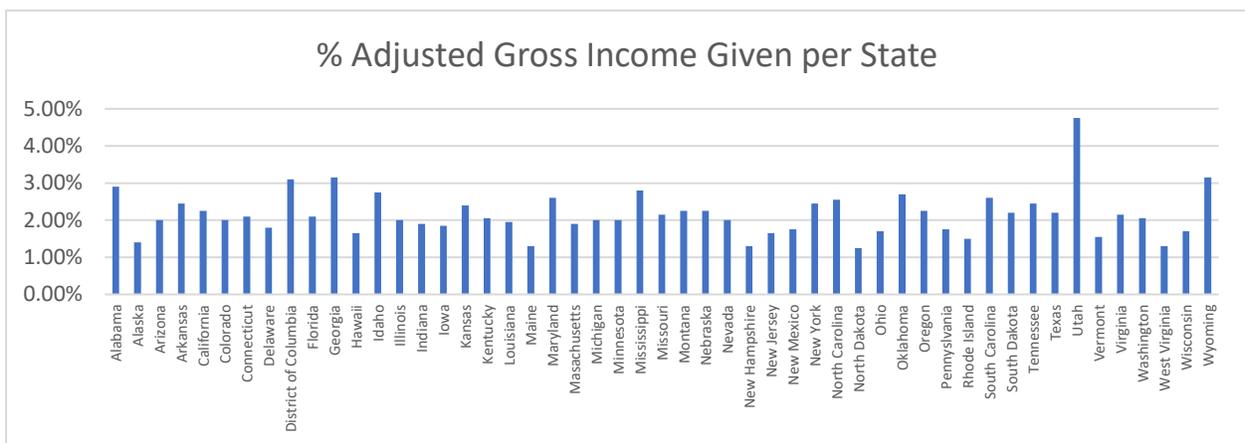
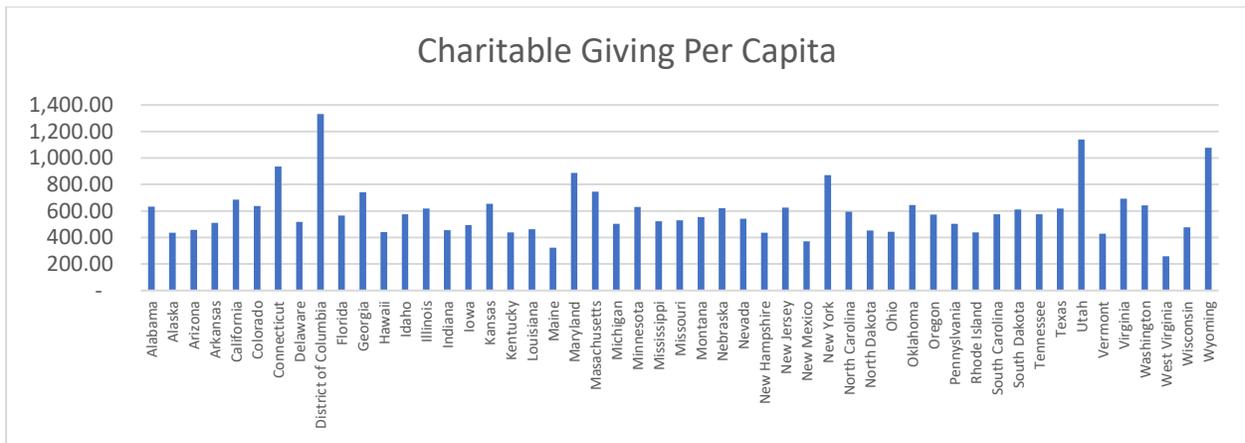
For the research it is assumed that Alaska, North Dakota, Wyoming, and Texas are states whose institutions and organizations are funded heavily by the natural resource rents generated in each state, that being coal, natural gas, and oil. Data from the National Center for Charitable Statistics was taken together with data from the United States Census Bureau and put together, the data was averaged before use. Initial data shows that states with large capitals and a high number of metropolises have the highest amount of charitable donation, but this data alone is an inaccurate show of how people donate in each state as population and average income vary state by state. Preliminary data shows that there is no correlation showing that states with large natural resource rents have decreased charitable giving.



<sup>11</sup> Donkers, Bas, Merel van Diepen, and Philip H. Franses. "Do charities get more when they ask more often? Evidence from a unique filed experiment." *Journal of Behavioral and Experimental Economics*, 2 June 2016.

<sup>12</sup> Khadjavi, Menusch. "Indirect Reciprocity and Charitable Giving - Evidence from a Field Experiment." *Management Science*, 11 Nov. 2017.

Dividing out the average amount donated by the average population gives the per capita charitable giving for each state. Contrary to expectations, Wyoming has a high amount of giving per capita even though its institutions and organizations are heavily financed by natural resource rents. North Dakota and Alaska, as expected, have a low amount of per capita giving, but Texas seems have a per capita donation on the level of many of the other states. Because this data seemed to show that there is no correlation between natural resource rents and lower charitable giving per state it was decided that looking into the percent of gross income given per state to best estimate the amount of charitable giving per state was the best choice because it encompassed low, medium, and high incomes and represented the population well.



Looking at the data from the % Adjusted Gross Income Given per State model shows that Wyoming remains at a high amount of charitable giving, while Texas' amount of charitable

giving decreased, and Alaska and North Dakota remained at a low amount of charitable giving all of which are based on the percent of adjusted gross income given per state. I further took the amount of revenue from natural resource extraction from the U.S. Department of the Interior in each of the 50 states with the amount given in each of the 50 states to find a correlation coefficient between the two. After running a simple correlation test, I found that the correlation coefficient between the two is 0.41 which shows that there is a slight positive correlation between natural resource rents and charitable giving.

### **Policy:**

My policy is to implement a nudge in institutions and organizations in states with high natural resource rents generated from non-renewable resources, which when donated to allow the donor to receive a tax break. The institutions and organizations will send out letters informing the population that with the global focus on switching to renewable energy and decreasing non-renewable resource use there will be shutdowns to state non-renewable resource production and less government funding will be provided to institutions. Institutions such as universities which are affected by the decrease will say that donations will help to keep tuition costs low for upcoming students and all institutions and organizations will state that all donations are tax deductible. Mentioning upcoming students will appeal to parents whose children will be soon going to school and will play on the parents' sympathy bias, increasing donations to the universities. By mentioning the tax deductible, it shows individuals that they can choose what to do with this portion of their taxes, encouraging them to use it to donate to the institutions and organizations. It also manipulates individuals' natural selfishness, incentivizing altruists and nudging others into donating.

### **Conclusion:**

Charitable giving is a complex, multifaceted, subject of study. Behavioral economics seeks to better understand charitable giving by understanding human behaviors in markets.

Once behaviors are understood it is possible to start manipulating those behaviors with nudges and get the populace to willingly comply with policy makers' desires. A factor of charitable giving to be considered is the effect on charitable giving natural resource rents provided as institutional funding has on the amount an individual is willing to donate. No correlation could be found that high natural resource rents decrease the amount of charitable giving in a state, but a slight positive correlation could be found between natural resource rents and charitable giving. Potential policy could introduce nudges into society which may increase charitable giving, and further study on the subject is recommended because states with large natural resource deposits such as Alaska, Wyoming, Texas, and North Dakota could be nudged, increasing the amount donated to institutions in each of these states.

## Work Cited

- Bachke, Maren Elise, Frode Alfnes, and Mette Wik. "Information and donation to development aid projects." *Journal of Behavioral and Experimental Economics*, 23 Apr. 2016.
- Brown, Alexander L., Jonathan Meer, and Forrest J. Williams. "Social distance and quality ratings in charity choice." *Journal of Behavioral and Experimental Economics*, 20 Apr. 2016.
- Charitable Giving Statistics, Individual Charitable Contributions by State*, NCCS, 10 Feb. 2016, [nccs.urban.org/data-statistics/charitable-giving-statistics](http://nccs.urban.org/data-statistics/charitable-giving-statistics). Accessed 23 Apr. 2018.
- Damgaard, Mette T., and Christina Gravert. "Now or never! The effect of deadlines on charitable giving: Evidence from two natural field experiments." *Journal of Behavioral and Experimental Economics*, 22 Apr. 2016.
- Donkers, Bas, Merel van Diepen, and Philip H. Franses. "Do charities get more when they ask more often? Evidence from a unique field experiment." *Journal of Behavioral and Experimental Economics*, 2 June 2016.
- Fiala, Lenka, and Charles N. Noussair. "Charitable Giving, Emotions, and the Default Effect." *Economic Inquiry*, 4 Oct. 2017.
- Governing the States and Localities*, The Census Bureau, [www.governing.com/gov-data/census/census-state-population-estimates-births-deaths-migration-totals-2013.html](http://www.governing.com/gov-data/census/census-state-population-estimates-births-deaths-migration-totals-2013.html). Accessed 23 Apr. 2018.
- Karlan, Dean, and Daniel H. Wood. "The effect of effectiveness: Donor response to aid effectiveness in a direct mail fundraising experiment." *Journal of Behavioral and Experimental Economics*, 16 June 2016.
- Khadjavi, Menusch. "Indirect Reciprocity and Charitable Giving - Evidence from a Field Experiment." *Management Science*, 11 Nov. 2017.
- Noss, Amanda. "Household Income: 2012." *Census.gov*, United States Census Bureau, Sept. 2013. Accessed 23 Apr. 2018.
- Noss, Amanda. "Household Income: 2013." *Census.gov*, United States Census Bureau, Sept. 2014. Accessed 23 Apr. 2018.
- Reyniers, Diane, and Richa Bhalla. "Reluctant altruism and peer pressure in charitable giving." *Judgment and Decision Making*, Jan. 2013.

Sudhir, K., Subroto Roy, and Mathew Cherian. "Do Sympathy Biases Induce Charitable Giving? The Effects of Advertising Content." *Marketing Science*, Nov. 2016.

Zarghamee, Homa S., Kent D. Messer, Jacob R. Fooks, William D. Schulze, and Shang Wu. "Nudging charitable giving: Three field experiments." *Journal of Behavioral and Experimental Economics*, 11 May 2016.