

Transaction Costs and Inertia in Charitable Giving

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Abstract

This paper uses a laboratory experiment to analyse the effect that transactions costs and inertia have on charitable giving. We conjecture that transaction costs are likely to have a greater effect on donations if the solicitation is received when someone is busy (when the opportunity cost of time is high) as opposed to when they have time on their hands to donate (when the opportunity cost of time is low). If donations do not have to be made immediately, inertia could also become a factor as someone might intend to give, but then postpone making the payment until they have more time, and having postponed making the donation once, keep doing so until the opportunity to donate has passed. Dictator Game experiments have been used to test various hypotheses regarding charitable giving, but in these laboratory experiments there is no transaction cost incurred in making a donation. However, in everyday life giving money to a charity nearly always involves a transaction cost (for example, writing out a cheque and posting it, or visiting a website and taking the time to enter your credit card details). In the standard lab experiment there is also no opportunity for inertia, as the donation has to be made immediately.

In this paper we vary the payment options in a Dictator Game in a way which introduces transaction costs and inertia. Our baseline is the standard Dictator Game. We then introduce a transaction cost by requiring those who wish to make a donation to place it in a secure box located a short walk away, with some subjects being able to make the donation at a time when we know the opportunity cost of time should be low, and others only be able to make a donation when the opportunity cost of time is likely higher. We introduce the possibility of inertia by varying the amount of time subjects have to make a donation.

In the first of these treatments subjects have 25 hours following the completion of the lab session to make a donation. Crucial to our design is that the lab session had been advertised to take one hour, but actually only took 35-40 minutes. Hence we know that subjects had time to walk to the box to make a donation during time they had planned to be in the lab. As they were planning on being in the lab during this time the opportunity cost of their time is low.

We designed this treatment to serve as an analogue of, in everyday life, receiving a request from a charity when you have the time to donate, if you choose to.

Any observed reduction in donations between the baseline and the first treatment could be due to either the transaction cost, or to inertia. Hence in our second treatment participants were given only one hour from the end of the session to make a donation. The potential for inertia in this treatment is extremely low, so we interpret any difference between the baseline and this second treatment as being due to transaction costs only.

Our first two treatments were designed to analyze the case where people have the time to make a donation immediately following a request. However, in everyday life requests from charities are often received when people are too busy to respond immediately. To mimic this everyday situation in the lab we introduced a third treatment where subjects could only donate the next day; i.e. we ruled out the option of donating immediately. As subjects wanting to donate need to do so in their own time, rather than during planned lab time, it is likely that this represents a higher opportunity cost of their time for most subjects compared to the first two treatments. Not allowing subjects to donate until the following day also creates a higher potential for inertia than in the second treatment.

We find that introducing a transaction cost significantly reduces donations (largely, but not entirely, due to a reduction in the number of small donations), and that donations are lowest when they cannot be made until the following day (which could be due to either inertia, or the opportunity cost of time being higher). Our results have important policy implications, suggesting charities will raise more money, especially in the form of small donations, if transaction costs can be minimised, and if people can be approached when the opportunity cost of time is low.

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