Abstract
It is often argued that payday lending regulations can increase welfare, because people with self-control problems might borrow more than they expect or would like to in the long run. To test this, we ran a field experiment with a large payday lender to elicit borrowers' predictions of their future borrowing and willingness-to-pay for an incentive to avoid future borrowing. We combine the experimental results with a novel sufficient statistic-based approach to estimate a model of partially naive present focus. 90 percent of borrowers say they want motivation to avoid payday loans, and borrowers are willing to pay a premium for the no-borrowing incentive. Experienced borrowers correctly predict their high likelihood of repeat borrowing, while inexperienced borrowers are moderately naive. We estimate average perceived and actual present focus parameters of 0.79 and 0.74, respectively. This limited naivete contrasts sharply with the priors of academic economists and practitioners who work on payday lending, which we document in a separate survey. We use these parameter estimates to carry out a behavioral welfare evaluation of commonly proposed payday lending regulations.