Comments on "A Kinky Consistency" by Emiliano Huet-Vaughn and Juan Carlos Suarez Serrato

Discussant: Xiaxin Wang (Fudan & Michigan)

November 15, 2018

Overview of the Paper

- Big question: How does individual behavior differ when facing linear vs. nonlinear budget sets?
- This paper: Use lab experiments to analyze human behavior under linear and the simplest nonlinear (i.e. a single-kinked) budget sets.
- Main findings
  - Most people behave highly internal consistency when separately facing linear and kinked budget sets
  - Half of people are arbitrarily consistent: despite showing internal consistency, their behaviors under linear and kinked incentives cannot be reconciled by a common decision rule
  - People who are arbitrarily consistent display demand functions that are significantly less price-responsive with kinked budgets than linear ones

Important Policy Implications

- General implication: Be cautious to apply behavioral elasticity estimates derived from linear settings to nonlinear settings, and vice versa.
- Implications for tax research: Reduced responsiveness to price changes under kinked budgets suggests reduced efficiency cost of tax, echoing previous research that emphasizes salience and complexity as a policy tool
- Implications for bunching analysis: Partially help explain the much smaller bunching estimates, obtained under nonlinear budget sets
    - But note that the traditional tax reform (diff-in-diff) estimates are also usually based on progressive tax schedule, where enough complexity exists

Comments: Arbitrarily Consistent vs Coherently Consistent

- Who are more abnormal – Arbitrarily Consistent (AC) or Coherently Consistent (CC)?
  - Tables 3 & 4 suggest that the key diff b/w the AC and the CC is not that the AC have a much smaller elasticity in the kinked treatment than they do in the linear one, but that the CC have a unusually small elasticity in the linear treatment. In fact, AC have a similar elasticity in the linear treatment to the Linearly Consistent people. From this perspective, the behavior of CC seems more puzzling than the AC. The puzzle lies in that many people (CC+Never Consistent+Nonlinearly Consistent) have too small responses to the linear incentive. Why?
    - ⋆ Are these people facing different treatments? No, treatments are the same.
    - ⋆ Are these people innately fundamentally different? Don't know.
    - ⋆ Intriguing empirical facts yet still wait for an explanation.

Comments: Further Thinking about Policy Implications

- Is there any way to make the estimates from responses to linear budget set useful for nonlinear case and vice versa?
  - Is it entirely impossible?
  - Or, if is possible, what's the minimal necessary condition to make it work?
  - Future work may explore the reason for why some people underrespond to the linear incentives: the fraction of these people and the relative magnitude of response to linear vs nonlinear incentives for the "abnormal" people may help make useful implications.

Comments: Interpretation of Figure 4

- Figure 4: the comparison between CDFs of all subjects' HM score under two budget sets seems a bit confusing
  - HM score is at individual level, while Figure 4 shows the distribution of all subjects. If we are concerned about internal consistency, why compare the CDF of HM for ***all*** people's behavior facing linear incentives vs ***all*** people's behavior facing nonlinear incentives?
  - Why not compare ***each*** individual's HM in linear vs nonlinear case? Might show a histogram of the diff between HM score in linear vs nonlinear incentives within individual.