Status Quo Bias Prevailing in the Economy of Pakistan: A Comparative Study of Investors and Bankers

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***Abstract*– This comparative study explored the level of status quo bias prevailing in the individuals. Two groups were taken into consideration i.e., bankers and regular investors. Questionnaires were used for this assessment. Independent samples t-test and descriptive frequencies was used in the methodology section. Final results showed that status quo bias prevails in both bankers and regular investors.**

***Keywords*– Economy, Comparative Study, Investors and Results**

I. INTRODUCTION

The status quo bias is a cognitive bias, in other words, people tend to be biased towards doing nothing or maintaining their current or previous decision. (behavioralfinance.net). Status quo bias is referred to the tendency of people to remain constant at one state and not willing to change his current or previous decision.

Current study is an assessment of status quo bias prevailing in the investment decisions of individuals in stock exchanges of Pakistan. Two groups i.e., bankers and regular investors were taken into consideration for assessment purpose. Data was collected through questionnaires and frequency distribution was applied to assess that whether bankers are more status quo biased or the regular investors. Previously, there is not any satisfactory study available on the topic of status quo bias assessment in stock exchanges in Pakistan as per best knowledge of authors.

"To do nothing is within the power of all men", (Samuel Johnson). Since, this is an assessment paper so we have convinced to use frequencies in descriptive statistics to measure the status quo bias in both bankers and regular investors. For this purpose statistical package for social sciences (SPSS) software was used for obtaining significant results.

Hence, our contribution may be summarized as follows. We fill a gap in the behavioral finance literature by conducting assessment study on the status quo bias. The susceptibility to the status quo bias is compared between regular investors and bankers the article is organized as follows. The next section summarizes the literature on the status quo bias. In the subsequent section, we describe the experimental design and the course of our study. Thereafter, we statistically analyze the results of the experiments. We continue with a discussion of our empirical findings and their implications for the decision making of investors.

Regarding different scenarios, status quo bias was frequently prevailing in both groups in financial and non-financial questions which were asked from the respondents. Furthermore in-depth results of study are described at the end of this assessment paper.

II. LITERATURE REVIEW

Status-quo-bias refers to an agent whose choice behavior is affected by the existence of an alternative he holds at the time of choice (called the status-quo).

Chernev (2004), the article was presented with a research examining the pressure of goal orientation over consumer preferences for status quo. Data collected from three experiments showed the diverging result that prevention-focused customers show strong preference towards status quo than promotion-focused customers.

Bashir and javed et al. (2013), Examined the financial institutions of Pakistan and collected data to find out the impact of behavioral biases oninvestor's financial decision making. Results concluded that confirmation, Illusion of control, excessive optimism and overconfidence biases have direct impact while status quo, loss aversion and mantel accounting biases have no impact on investor's decision making.

Bonnichsen and Ladenburg (2010), Presented a way, which can reduce status quo. They said if respondents are presented by a short and simple entreaty (request) prior to the actual situation, the status quo can be reduced and it also develops the internal validity of theoretical preferences.

Kempf and Ruenzi (2005), examined US equity mutual fund market and said that status quo bias positively depend on the number of alternatives. The number of funds offered in specific market segment in which investor wants to invest, are considered as the number of alternatives. They also suggested that where there are more funds to choose from the status quo bias is more severe.

Dean (2008), People may experience information overload when size of choice set increase, leading them to make choice of the status quo. Conversely, when there is small choice set the status quo can change people's preferences; it means that a less risky status quo can lead people to choose very risky option.

Wittman (2005), when status quo bias is combined with downward sloping demand it results in addictive behavior.

Suh (2012), Market segmentation can be caused by the status quo bias in consumer's perception about default product. In preceding period the consumer choose the best product unless another's company evaluation in his mind exceeds by a certain amount from initial product. This consumer bias gives a reason to higher rated firms to provide good quality product at a high price in succeeding periods, on the other hand low rated firms offer low quality products at low price.

Crandall and Eidelman et. al. (2008), Tested that, whether the acceptability of the practice of torture of prisoners of war or criminal suspects can be enhanced by characterize them or not. If ancient practices are simply understood to be good, then the explanation of torture as a part of the status quo should make it seem more acceptable. Torture explained as an ancient practice had more acceptability and was seen more effective and reasonable than the same torture explained as new.

Wenz and Skugrud (2008), Showed that the behavior of football coaches is consistent with status quo, it means that they are less willing to deviate from conventional approaches even when it is optimal to do so, because their decisions are anchored to a conventional wisdom embodied in "THE CHART" that represents the claimed optimal conversion strategy. And research shows that conventional wisdom is appropriate for average teams, but not all teams.

andl and Felfernig described that People incorrectly judge a status quo alternative to be better than another, to prove this in their research they investigate the status quo bias effect in the context of product configuration system where defaults are provided. Their results conclude that if uncommon values are provided as default settings than a strong biasing effect does exist and it is also possible to make consumers spend more money by exploiting this status quo effect.

Meyerhoff and Liebe (2006), Out of three potential determinants of choice experiment, perceived task complexity and strong protest beliefs, enhance the motivation toward selecting the status quo more often than other alternatives while attitude toward the environmental change does not play any role in motivation rather it decreases the likelihood of selecting status quo.

Burmeister and schade (2007) urged to find that weather the decisions of entrepreneurs are more biased due to status quo bias or not, for this purpose they made two groups of bankers and students and compared them for susceptibility to status quo bias. Almost 700 individuals were taken into consideration consisting of entrepreneur's bankers and students. Results revealed that entrepreneurs are more biased as students but less biased as bankers.

Shapira and venezia (2000) studied about patterns of behavior of investors in Israeli brokerage house. Two types of clients were taken into consideration in this study i.e., independent investors and professionally managed investors. Their main focus was on disposition effect. Results of this study revealed that disposition effect is present in both type of investors but more stronger in independent investors.

Samuelson and zeckhauser (1988) studied about status quo bias in real life decisions. It was measured by doing experiments on selection of health plans and retirement plans by individuals. Data was collected by questionnaire consisting of several series of decision questions. Chi square and regression models were used to derive the results. People were seen more biased towards status quo bias and the reasons given were marketing techniques and nature of competition in markets.

Masatlioglu and OK (2003) also worked on status quo bias and studied that how rational choices of individuals are affected in the presence of status quo bias. Main purpose of their study was to propose a rational choice model in the presence of status quo bias.

Kim and Kankanhalli (2009) investigated the resistance of individuals to information systems implementation. Interviews were conducted from the employees of a major IT company. Study revealed that users resist the new information systems due to their preference to stay with the current situation. Results revealed that this resistance was due to status quo bias prevailing in the individuals.

Hartman et al worked on consumer rationality and status quo bias in their study. Regression models and choice theoretic frameworks were used in this study. This study believes that individual's status quo bias may limit economic rationality of consumers in their decisions. Results of this study also confirmed this belief.

Kempf and Ruenzi (2005) explored status quo bias in repeated decision making in choosing alternatives which were chosen previously. United States equity mutual funds market was taken for study purpose and the results revealed that there is strong evidence of existence of status quo bias in this market. It was also examined that status quo bias was stronger in the segments in which there were more number of funds to choose from i.e. more alternatives.

Brown and Kagel (2009) investigated status quo bias along with disposition effect and ostrich effect on investors in stock market. Subjects were said to choose one of twenty stocks to hold. The performance of all stocks was calculated by random distributions which were known to the subjects. Amazingly, the results support the evidence of having status quo bias in investors but not the disposition effect and ostrich effect.

Gubaydullina et al (2011) examined the status quo bias in analysts of bond market that weather this bias exists in them or not while performing in the bond market. For this purpose forecasts of interest rate trends of government bonds with ten year maturities were examined and were revealed that analysts were biased towards the current interest rates and thus were affected by status quo bias.

III. THEORETICAL FRAMEWORK

As we are willing to find the relationship of status quo bias on regular investors and bankers so the drawn theoretical framework (Fig. 1) is implemented in current study where the susceptibility to status quo bias is examined between regular investors and bankers:

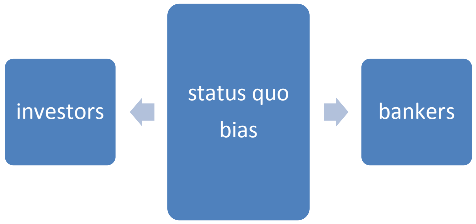

Fig. 1: Theoretical Framework

A) Method of data analysis and interpretation

Twelve questions related to status quo bias were asked in the questionnaire from both respondents i.e., bankers and regular investors. Various tools of statistical analysis, using SPSS statistical software, like ratios, percentages, tables, Cross tables, Chi-square test and reliability analysis were done, as and when required to arrive at logical conclusion on the sample data. Reliability analysis allows studying the properties of measurement scales and the items that make them up. The Reliability Analysis procedure calculates a number of commonly used measures of scale reliability and also provides information about the relationships between individual items in the scale. Alpha (Cronbach) is a model of internal consistency, based on the average interterm correlation. Nunnaly J. (1978) has indicated 0.7 to be an acceptable reliability coefficient. In fact, 0.7 or higher is considered "acceptable" in most Social Science research situations. Chi-square is a statistical test commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis. The chi-square test is always testing what scientists call the null hypothesis, which states that there is no significant difference between the expected and observed result.

B) Reliability of the items of scale

Twelve questions related to status quo biased were used in questionnaire to find out its effect on bankers and regular investors. Forcalculating the reliability of scales the coefficient of Cronbach's Alpha is used, for our sample it was measured as 0.724, as we can see that the value of cronbach's Alpha is more than 0.7, it is obvious that the items measuring the status quo effect are reliable.

C) Findings

The analysis, findings and interpretations of the current study is given in the following paragraphs.

D) Interpretation

Table 1 shows the cross tabulation of two categories of individuals (regular investors and Bankers) who invest in share market and the presence of status quo bias in between them while making an investment decision. From this table we can see that the observed association ship between the profession of investors i.e., bankers or regular investors, and the presence of status quo bias between them is very low since the calculated Chi-square is 0.0295. However given the test the relationship that was observed in the sample is not even traceable in the population because the calculated significant value (i.e., 0.863694) is more than 5% level of significance. Therefore it means that they are independent to each other and it does not matter that which profession of you are, your investment decision while making investment in equity market will be effected by status quo bias, in short with respect to status quo bias, there is no difference between the investment decisions made by bankers and regular investors.

Table 1: cross tabulation of two categories of individuals

	Biased	Unbiased	Total
Investors	49	36	85
Bankers	46	32	78
Total	95	68	163

E) Results of Independent samples t-test

Our significance level of levene's test was 0.002, and it shows that the group variance are not equal independent t-test value was 0.167 which indicates that the status quo bias equally prevails in both groups (Table 2) i.e., bankers and independent investors or we can say that the results showed that both groups of respondents are indifferent with respect to status quo bias, further more independent Samples test output, provided this study with confidence intervals for the difference between the group means. This interval allows us to estimate the actual difference found in the population between the groups of interest. In this case we can be 95% confident that actual difference in status quo bias found between all bankers in the population and all regular investors in the population is somewhere between (-0.43239 and 0.51203).

Table 2: Independent sample test

-	Leven's Test for equality of Variance		t-test for equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence internal of the Difference	
								Lower	Upper
Equal variances assumed	10.413	.002	.169	161	.866	.03982	.23532	-.42489	.50452
Equal variances not assumed	-	-	.167	136.748	.866	.03982	.23880	-.43239	.51203

IV. CONCLUSION

The study was conducted to find out the difference between the biasness of individuals while making investment in equity market of Pakistan. It is found that bankers and regular investors both show status quo bias with almost same degree while making investment decisions. It means our hypothesis has been confirmed that individuals are status quo biased while making an investment decision.

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