

Question in Project:

German Internet Panel (GIP) – Module "Inflation" November Wave 2014 (English Version)

Question Topic:

Politics/ Inflation

Construct:

Preference of the combination of price and loan repayment

General Information:

Note: The item was tested in German. This is an English translation of the original German wording.

Both experimental conditions from question 2 are taken into account in this question. The two groups were compared in the evaluation in order to find differences in their answer behaviors.

Introduction:

The inflation rate does not only affect price rates but also interest rates for loans, that is, the amount of money paid for borrowed money. If the inflation rate increases, then prices increase too. However, the interest rates for loans decrease. This means higher prices and lower interest. If the inflation rate decreases, then prices decrease too. However, the interest rates for loans increase. This means lower prices and higher interest.

Assuming that the person from the previous question had - in addition to his or her monthly expenses of 1.500 Euro - a monthly loan repayment of 500 Euro for the purchase of a new car. Consider the following example: Over the next 12 months, prices for the monthly expenses increase to 1.700 Euro, the loan repayment, however, is worth 265 Euro (instead of 500 Euro today).

[Die Inflationsrate beeinflusst nicht nur die Höhe der Preise, sondern auch die Höhe der Zinssätze für Kredite, also den Preis, der für geliehenes Geld gezahlt wird. Wenn die Inflationsrate steigt, dann steigen die Preise, es sinken jedoch die Zinsen für Kredite, das heißt höhere Preisen und niedrigere Zinsen. Wenn die Inflationsrate sinkt, dann sinken die Preise, es steigen jedoch die Zinsen für Kredite, also niedrigere Preise und höhere Zinsen.

Angenommen, die Person aus der vorigen Aufgabe hätte zusätzlich zu ihren heutigen

monatlichen Ausgaben von 1.500 Euro eine monatliche Kreditrückzahlung über 500 Euro für den Kauf eines neuen Autos abzubezahlen. Stellen Sie sich folgendes Beispiel vor: In 12 Monaten steigen die Preise für die monatlichen Ausgaben auf 1.700 Euro, die Kreditrückzahlung ist jedoch nur noch 265 Euro wert (im Vergleich zu den heutigen 500 Euro).]

Question Text:

Which combination of price and loan repayment would you personally prefer?
[Welche Kombination von Preis und Kreditrückzahlung würden Sie persönlich bevorzugen?]

Instruction:

Please select one of the combinations of price and loan repayment presented below. *[Wählen Sie bitte eine der untenstehenden Kombinationen von Preis und Kreditrückzahlung aus.]*

Answer Categories:

Less than 1500 EUR / More than 547 EUR *[Weniger als 1500 EUR / Mehr als 547 EUR]*

1500 EUR / 547 EUR

1515 EUR / 520 EUR

1530 EUR / 495 EUR

1545 EUR / 471 EUR

1560 EUR / 447 EUR

1575 EUR / 425 EUR

1590 EUR / 403 EUR

1605 EUR / 383 EUR

1620 EUR / 363 EUR

1635 EUR / 344 EUR

1650 EUR or more / 326 EUR or less *[1650 EUR oder mehr / 326 EUR oder weniger]*

Cognitive Techniques:

Category Selection Probing, Specific Probing.

Findings for Question:

Three answer categories are selected particularly often: 15% of the participants prefer a relatively high loan repayment over high living expenses, 22% prefer the other extreme.

The third frequently selected category is the one that matches the 2% inflation rate that was expected by the ECB in experimental condition 2. This means that some respondents may probably not state their personal preference but select the scenario they think is most likely to occur.

The category selection probe for this question (*"Could you please explain your answer in a little more detail? Why did you choose this value?"*) revealed the following question problems:

- In 25% of the cases the answer of the respondent indicates they did not understand the purpose/topic of the question (e.g. *"The loan has to be repaid either way. If the loan repayment decreases I have to pay longer, or I increase the rate again and complete the repayment earlier"*, ID 133).
- In 16% of the cases the respondents state that they did not understand the question (e.g. *"Because I didn't understand it, but I had to choose something"*, ID 94).
- 7.5% of the participants state that they do not want to take out a loan in general (e.g. *"I personally would never take out a loan"*, ID 124). It is unclear whether these people actually put themselves in the position of the person in the example or whether they simply ignore it.
- 9% of the participants state that having to repay a loan is unpleasant for them. Thus, they want to repay it as fast as possible and decide (mistakenly) to choose a higher rate of repayment (e.g. *"I would want to repay the loan as fast as possible"*, ID 185).
- Approximately 3% of the respondents only took the expected inflation rate into account when they answered and did not factor in the amount of the loan (e.g. *"Equals 1% inflation rate"*, ID 135)

Only around 21% of the answers indicate that the participants really understood the question. 18% of them argue correctly that the last answer category "1650 EUR or more / 326 EUR or less" is the cheapest for them overall (e.g. *"If prices and wages rise the loan repayment gets easier because the loan is less valuable"*, ID 140). Another 3% of the respondents argue it is more important to them that living expenses remain low because this affects more people in total (e.g. *"Because the prices decrease, they apply for everyone. The interest only affects people who actually have to repay loans"*, ID 171).

The results from the specific probe (*"How easy was it for you to answer question 7?"*) also point towards problems on the part of the participants. Almost 70% state, it was "very difficult" or "rather difficult" to answer the question. The reasons for this difficulty are:

- Approximately 8% of the participants say they do not understand the relationship between interest for loans and inflation rate (e.g. *"Is there anyone who understands how you calculated those 265 Euros?"*, ID 95).

- More than 30% of the respondents express problems with the topic of the question because they do not know much about it (e.g. *"Because I never thought about this problems and because I do not understand a lot of the financial policy"*, ID 95).
- Nearly 13% of the respondents state that the question was difficult to answer because they had to think about it first (e.g. *"I tried calculating which option is the cheapest one for me"*, ID 106).

The last probing question regarding the comprehensibility of the explanations about the relationship between interest and inflation rate was answered with "little comprehensible" or "not comprehensible at all" by 25% of the respondents.

Recommendations:

The objective of this question is unclear, that is, it is unclear what respondents are supposed to do. Are they supposed to provide their estimate of the prices and the repayment rate in 12 months? Are they supposed to provide the optimal ratio of price and repayment rate? Or something else? Given that the question objective is unclear, we are not able to provide a concrete suggestion for improvement but only some general recommendations.

We recommend to rephrase the explanation of the relationship between interest and inflation rate to break down the complexity of the topic as much as possible for the participants.

Especially the misconception that the loan will be repaid faster if you pick a higher repayment rate or that it takes longer if you pick a rate of less than 500 Euros should be corrected. This could eventually be accomplished by including the statement that the repayment time is the same in all answer categories. Alternatively or in addition, a statement on the duration of the loan repayment could be included.

Additionally, the way how the repayment rates are calculated should be explained, i.e. which interest rates are at the base of these calculations.

Finally, the recommendation for question 1 should also be adopted here, that is, the amount of 1.500 Euros/1.700 Euros should be reduced.

Implementation of Recommendations:

Item revised