Financial Mistakes Over the Life Cycle
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Abstract
We show that in ten different contexts—three kinds of credit card fee payments, credit card interest payments, interest rates on credit cards, mortgages, auto loans, home equity loans and credit lines, and small business credit cards—the young and the old pay more fees and face higher interest rates than the middle-aged. These results are not explained by commonly observed risk characteristics. We hypothesize that this may be a consequence of the interaction between experience and cognitive decline. The young have high cognitive skills, but little experience. The old have substantial experience, but declining cognitive skills. Although each individual case studied does not definitively establish either this hypothesis or even the u-shaped pattern of financial mistakes, the prevalence of this pattern in all ten contexts suggests there is a genuine underlying phenomenon.