Sequential decision making in consumer lending: An experimental investigation of consumers’ decision heuristics

In this experimental study, we consider the decision heuristics of consumers faced with a finite sequence of credit offers. Suppose a potential borrower is faced with a sequence of credit offers, such as a sequence of direct mail offers. The offers arrive in a random sequence, i.e., there is no particular order in the quality of the credit offerings. The borrower is required to make an accept or reject decision for each offer. If the borrower accepts the latest offer, no further offer is made to the applicant. If the borrower rejects the offer, another offer is made and the applicant is required to make a decision on the latest offer. The applicant may not reconsider a rejected offer. If no prior offers were accepted, the borrower is required to accept the last offer in the finite sequence. In this paper, we consider whether potential borrowers use similar decision making strategies as reported by Seale and Rapoport (1997) in their experimental study on the Secretary Problem, a sequential decision making problem. We then discuss the potential benefits to portfolio managers in understanding potential borrowers’ decision heuristics.