A Neurological Explanation of Strategic Mortgage Default

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Notes

1. The inability to pay one's mortgage due to such factors as job loss, income curtailment, or prolonged illness is known as an "economic default."

6. The tamping rod landed 30 yards away. It measured 3 feet, 8 in. in length and 1.25 in. in diameter. The rod (and Phineas' skull) is currently on display at the Warren Anatomical Museum at Harvard University's School of Medicine.

7. At the time of Staw (1976), the more common term was "escalation of commitment." It has subsequently been referred to more often in a business environment as "sunk cost fallacy." In game theory, consideration of sunk costs are often referred to the "Concorde Effect," named after the observed behavior of the British and French governments' continued investment in the Concorde airplane long after it was evident the economics clearly did not support further production efforts.

8. While a bit of a hard sell, authors such as Baliga and Ely (2011) argue that due

documented behavioral inputs. Moreover, the outcome of such decisions varies greatly from one person to another and may not be felt for many years to come. For all these reasons, we compensate participants using a flat fee.

13. Because being underwater is a necessary condition for strategic mortgage default, all of our scenarios are associated with negative equity. As such, the behavioral theories we test are all taking place in the loss domain as defined in Kahneman and Tversky (1979).

14. Note that by pairing the scenarios the way we did allows us to conduct a ceteris paribus analysis so that we can attribute and difference in results to the sole variable that differs in the analysis.

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