

## Welcome from the team

Greetings from the team at CFS and apologies for the delay of this newsletter: not sure if I'm getting slack or refuse to believe that time is travelling this fast!! In fact I'm attending my grandmother's 100th birthday in a couple of weeks, she still lives in her own home and gets by with help from family and helpers, but most importantly she tells me she can't believe her age, she still feels 30 and is constantly shocked by the person in the mirror! In fact it's somewhat worse these days because her family recently convinced her to have her cataracts removed to improve her vision, as a 99 year old. Now she's mortified when she sees the mirror, and it's adversely affected our relationship; no more

does she make a statement about how handsome and youthful I look!!

Anyway enough about my family, hopefully this newsletter finds you all satisfied with the summer fare and looking forward to the change in season. The office news is that Daniel Glynn has extended his area of operation and now includes mortgage brokering. Dan spent many years as a bank manager so it wasn't too much of a stretch, though now he works for all of the banks except BNZ.

Please enjoy the read and if you have any concerns or questions please call in or call us.

## Quotes

**I am a great believer in luck and find the harder I work, the more I have of it.**

Thomas Jefferson

**The only way to keep your health is to eat what you don't want, drink what you don't like, and do what you'd rather not.**

Mark Twain

**If at first you don't succeed, try, try again. Then quit. There's no use being a damn fool about it.**

W.C. Fields

**A government that robs Peter to pay Paul can always depend on the support of Paul.**

George Bernard Shaw



'He didn't want anything elaborate.'

Martin Honeysett, 1976

# Unintended Consequences

(An excerpt from 'Freakanomics' by Steven Levitt and Stephen J. Dubner)

Imagine for a moment that you are the manager of a day-care centre. You have a clearly stated policy that children are supposed to be picked up at certain times. But very often parents are late. The result: at day's end, you have some anxious children and unhappy staff who have to wait around for the parents to arrive. What to do?

A pair of economists who heard of this dilemma—it turned out to be a rather common one—offered a solution: fine the tardy parents. Why, after all, should the day-care centre take care of these kids for free?

The economists decided to test their solution by conducting a study of ten day-care centres. The study lasted twenty weeks, but the fine was not introduced immediately. For the first four weeks, the economists simply kept track of the number of parents who came late; there were, on average, eight late pickups per week per day-care centre. In the fifth week, the fine was enacted. It was announced that any parent arriving more than ten minutes late would pay \$3 per child for each incident. The fee would be added to the parents' monthly bill, which was roughly \$380.

After the fine was enacted, the number of late pickups promptly went..... up! Before long there were twenty late pickups per week, more than double the original average. The incentive had plainly backfired.

So what was wrong with the incentive at these day-care centres?

You have probably already guessed that the \$3 fine was simply too small. For that price, a parent with one child could afford to be late every day and only pay an extra \$60 each month—just one-sixth of the base fee. As babysitting goes, that's pretty cheap. What if the fine had been set at \$100 instead of \$3?



That would have likely put an end to the late pickups, though it would have also engendered plenty of ill will. (Any incentive is inherently a trade-off; the trick is to balance the extremes.)

But there was another problem with the day-care centre fine. It substituted an economic incentive (the \$3 penalty) for a moral incentive (the guilt that parents were supposed to feel when they came late). For just a few dollars each day, parents could buy off their guilt. Furthermore, the small size of the

fine sent a signal to the parents that late pickups weren't such a big problem. If the day-care centre suffers only \$3 worth of pain for each late pickup, why bother to cut short the tennis game? Indeed, when the economists eliminated the \$3 fine in the seventeenth week of their study, the number of late arriving parents didn't change. Now they could arrive late, pay no fine, and feel no guilt. (Not sure if the economists were sued by the day-care centres at the end of the study!)



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