Psychologists show that 'money changes everything'

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Studying delayed gratification and risk, Washington University psychologists have found that people are more likely to wait on collecting full payment for a non-consumable monetary reward than they are for any of three consumable rewards -- beer, candy and soda. Credit: Eric Chou

It's been said by everyone from Cyndi Lauper to Alex Rodriguez that "money changes everything." Now psychologists at Washington University in St. Louis have published a paper to support that claim.

Studying delayed gratification and risk, the psychologists found that people are more likely to wait on collecting full payment for a non-consumable monetary reward than they are for any of three consumable rewards — beer, candy and soda.

Leonard Green, Ph.D., professor of psychology, and Joel Myerson, Ph.D., research professor of psychology, in Arts & Sciences at Washington University, along with their graduate students, Daniel D. Holt and Sara J. Estle, study the effect that delay to receipt of a reward has on the subjective value of that reward.

Their research looks at factors that affect the degree of self-control that people exercise, both the factors that increase the degree of self-control and those that increase impulsive decision-making.

More specifically, the researchers recently found that delayed monetary rewards are discounted less steeply than rewards that are directly consumable, such as soda.

For instance, if the average person were given the choice between an amount of soda right away and $50 worth of soda that they would have to wait six months to get, most people would take significantly less than $50 worth of soda now (discounting the value of the delayed soda considerably).

In contrast, the person given a choice between an amount of money right now and $50 in six months would not discount the delayed money nearly as much as the soda.

Their paper reporting this research was published in the January 2007 edition of *Psychological Science*. The work has far-reaching implications for many fields, including marketing, economics and the psychology of self-control.

Green and Myerson found that delayed money was discounted less steeply than beer, candy and soda, which were all discounted at approximately the same rate. Additionally, smaller delayed rewards of all types were discounted more steeply than corresponding larger amounts of rewards.

Interestingly, if the rewards are probabilistic, meaning that there is only a chance that one will get the reward (say, a 50 percent chance), then there is no difference in the rates at which money, candy, soda and beer are discounted.

'Money retains its utility'

Green and Myerson's results suggest that although previous researchers have claimed that abused substances, such as alcohol, have an inherent quality that makes them steeply discounted, abused substances may be discounted at the same rate as other directly consumables, such as candy and soda, at least by people without substance-abuse problems.

So what makes money different from directly consumable goods?

"Money retains its utility, despite the inconstancy of desire," says Green. "Money can be exchanged for almost any other reward that one might want, but the desire for beer, candy or soda is dependent upon a number of factors that vary over time — hunger, thirst, etc."

Thus, the average person exercises more self-control in waiting for a monetary reward because money is always useful, while we have "inconstant desire" for things like beer, candy and soda.

On the other hand, when the rewards are probabilistic, there is a chance that one might not get the money, beer, soda or candy. In this case, the average person discounts all the types of reward at the same rate.

So although probabilistic and delayed rewards may seem to be similar as far as "risk" — after all, you risk not getting the reward if there is a delay, and if there is some probability that you'll get it, then there also is some probability that you won't — the way people think about their choices is different, depending on whether the outcomes are monetary or directly consumable rewards, as well as whether the outcomes are delayed or probabilistic.

If left to our own devices ...

Myerson says that findings from their research on discounting and self-control can be readily applied to savings and investments.

Think of an employer-sponsored 401k retirement plan. Allowing automatic payroll deductions on a monthly basis would suggest that a participant "intuitively understands discounting," says Myerson.

If left to our own devices, he said, many of us would spend all of the money each month, and not exercise the self-control it takes to invest it ourselves.

Thus, we commit to a monthly payroll withdrawal because we intuitively understand our tendency to discount. We know that we are likely to take a smaller, immediate reward rather than wait for the larger, long-term reward that comes from saving for retirement.

The researchers' work helps in understanding the factors that influence choices involving certificates of deposit, retirement plans, health-club annual memberships, Social Security, automatic investments and so on, and also helps in the identification of weaknesses in people's decision-making processes.

The researchers suggest that such understanding may enable people to make better choices — those that lead to greater benefits in the long run.

Source: Washington University in St. Louis, By Jennie Iverson

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