Medical Xpress

Exploring the financial costs of sadness

November 14 2012

Your emotions can certainly impact your decisions, but you might be surprised by the extent to which your emotions affect your pocketbook. New research from psychological scientist Jennifer Lerner of the Harvard Kennedy School of Government and colleagues Yi Le and Elke U. Weber of Columbia University explores how impatience brought on by sadness can in turn produce substantial financial loss. The study is published in *Psychological Science*, a journal of the Association for Psychological Science.

Using data collected at the Harvard Decision Science Laboratory and the Center for Decision Sciences at Columbia, the authors found that subjects randomly assigned to view a video that induced sadness exhibited impatience and myopia, which were manifested in financial decisions that elicited higher gains in the short term, but lesser gains over the longer term. Thus, subjects in the sadness condition earned significantly less money than subjects in the neutral condition. They showed what is known as "present bias," wherein decision makers want immediate gratification and so they ignore greater gains associated with waiting.

"Across three experiments, the median sad participant valued future rewards (i.e., those delayed by 3 months) 13% to 34% less than did the median neutral-state participant. These differences emerged even though real money was at stake and even though discount rates in the neutral condition were already high," the authors reported.

"These experiments, combining methods from psychology and economics, revealed that the sadder person is not necessarily the wiser person when it comes to financial choices," they concluded. "Instead, compared with neutral emotion, sadness—and not just any negative emotion—made people more myopic, and therefore willing to forgo greater future gains in return for instant gratification."

Lerner and her co-authors contend that the findings have important implications for the design of public policy—in areas such as estate planning and credit card regulations.

"Public-policy design and implementation need to be based on consideration of the full range of psychological processes through which decisions are made," the authors argue. "Fully understanding these processes may also help address the economic problems associated with Americans' increasing reliance on credit cards."

Jennifer Lerner is Professor of Public Policy and Management at the Harvard Kennedy School of Government as well as Director of the Harvard Laboratory for Decision Science. This inter-disciplinary laboratory, which she co-founded with two economists, draws primarily on psychology, economics, and neuroscience to study human judgment and decision-making.

Provided by Association for Psychological Science