Age-Old Money Matters: Positivity in Older Adults Leads to Balanced Investments

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The economic and psychological term known as "sunk-cost fallacy" is a bias that leads someone to make a decision based solely on a previous financial investment. For example, a baseball fan might attend every game of the season only because he already purchased the tickets. But not everyone would force themselves to brave the pouring rain for a single game in one season simply because they previously paid for the seats.

So who is more likely to commit or avoid the sunk-cost fallacy and why? In a recent study, psychologists JoNell Strough, Clare Mehta, Joseph McFall and Kelly Schuller from West Virginia University found that younger adults were more likely to commit to a situation if they had already invested money into it, and that older adults showed a more balanced fiscal perspective of the same situation.

To get to this conclusion, the researchers presented college students and senior citizens with two vignettes to test how likely each age group would be to watch a boring, paid-for movie versus a boring, free movie.

The first vignette specifically read, "You paid $10.95 to see a movie on pay TV. After five minutes, you are bored and the movie seems pretty bad"; the other vignette did not include a cost. Participants then selected from five options regarding their projected time commitment—stop watching entirely, watch for ten more minutes, watch for twenty more minutes, watch for thirty more minutes or watch until the end.

The results, which appear in the July issue of *Psychological Science*, a publication of the Association for Psychological Science, show the older adults spent the same amount of time watching the movie regardless of monetary investment. In contrast, the young adults chose to invest more time in the paid-for movie than the free movie in order to avoid wasting $10.95. The psychologists attribute the distinction between younger and older peoples' decisions to differences in the way each group thinks about gains versus losses.

“Younger adults show a negativity bias,” Strough explained. “They weigh negative information, such as the lost investment, more heavily than positive information and so they try to ‘recover’ the lost investment by investing more time.”

On the other hand, older adults are more likely to view the positive side of situations; therefore, their decisions reflect a more balanced view of gains and losses. According to the psychologists, older adults’ more balanced view may help them recognize that, once made, this type of investment cannot be recovered simply by committing more time to the activity.