

In Money Matters, Patience can Profit

August 16, 2008

Whether it's waking up at the crack of dawn to go to the gym or breaking the bank to pay for college and graduate school, most of us pay small prices in hopes for a big payoff in the future. But not everyone is as focused on the future as gym rats and students. How can some of us see a particular tradeoff as advantageous, while others of us see precisely the same deal as foolish?

The reason may be due to what researchers call "temporal discounting," a tendency to consider events in the distant future less important than events in the near future. In other words, if something is way off in the distance, it's very difficult to keep its importance front and center in the mind. In an experiment recently published in *Psychological Science*, a journal of the Association for Psychological Science, psychologists Eran Magen, Carol S. Dweck, and James J. Gross of Stanford University wondered if the way a tradeoff is "framed" in the mind might affect whether or not we choose an immediate but small payoff over a greater reward later on.

"Decision-makers commonly view their situation as a choice between *good* alternatives soon and *better* alternatives later," explained the authors. So, in their experiment, the researchers had participants choose between immediate and delayed payments in a variety of scenarios, varying the amounts of money and the time interval that separated now and the future. Sometimes the tradeoff was stated as: \$5 now or \$6.20 later. Other times it was: \$5 now *and* \$0 later OR \$0 now *and* \$6.20 later. Invariably, when the zero-dollar payday was spelled out, rather than hidden (as in the first condition), the subjects were less impulsive in their choices.

"The data presented here demonstrate how changing the construal of outcomes, even without changing their objective values, can have a powerful impact on individuals' ability to consider the future consequences of their decisions," the authors conclude. So, think twice the next time you hit the snooze button—stealing those extra winks is like taking your \$5 and coming up empty handed later.