How the connection to the future self impacts financial decision-making

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The June 2011 edition of the *Journal of Consumer Research* features research from Professor Daniel Bartels, marketing professor at Columbia Business School, and Oleg Urminsky, marketing professor at The University of Chicago Booth School of Business, that depicts how consumers feeling or not feeling connected to their future selves impacts their spending and savings decisions. The researchers conducted a series of experiments, manipulating the degree to which subjects felt connected to their future selves. When discontinuity with the future self is anticipated, people behave more impatiently – speeding up the consumption of utility (in this case, gift cards) – than when connectedness to the future self is expected. The research which examines how people weigh smaller, immediate rewards against larger, long-term rewards, is part of a growing area of study in psychology on intertemporal trade-offs.

In the first study, the researchers asked a group of college seniors — three weeks before graduation — to read a passage that described college graduation either as an event that would prompt a major change in their identities or as an event that would prompt only a relatively trivial change. Compared to students who read the passage describing graduation as a small change, those who read a description of the event as a major change were much more likely to make more impatient choices, choosing to receive a gift certificate worth $120 in the next week rather than wait a year for up to $240.

In a subsequent study, the authors asked people to evaluate their sense of connectedness and similarity to their future selves. Three weeks later, they were asked them to choose between smaller gift cards they could use right away or larger gift cards that would require waiting. "Those who had felt more connected to their future selves then made more patient choices and were more willing to wait for a higher-valued gift card," Professor Urminsky explained.

Professor Bartels discussed the significance of the study. "Our work suggests that you can motivate people to hold onto their money, or make other, more prudent decisions by increasing their sense of connectedness to their future selves. Rather than trying to guilt ourselves into making prudent financial choices or creating complicated incentive schemes, we can instead look for simple, straightforward ways to foster our sense that what matters most will be preserved in our future selves, so that we can achieve goals that are important."

Provided by Columbia Business School