

The financial cost of opportunity lost

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When we make big financial decisions, such as buying or selling property or even deciding to accept a new job, we are willing to accept a lower price in the short term rather than 'spend' our time to search longer, new Australian research from Macquarie Graduate School of Management (MGSM) has found.

The laboratory study, conducted by researchers Annie Hsiao, Professor Servátka and Professor Simon Kemp from University of Canterbury, investigated the impact of the time cost in a sequential search task framed as selling houses in which the participants encountered one offer to buy at a time.

The researchers observed that imposing a 'time search cost' on participants, specifically a five second [delay](#) before a new buy price offer was made available, decreased the length of search time that the participants were willing to carry out by almost 10 per cent, when compared to the participants who incurred no such delay in offers.

"Previous studies have shown that if the search cost is monetary, people search less, but despite the unavoidable nature of time search cost, its effect on behaviour has previously been unexplored. In our experiment, we implement two treatments: no time delay and a five-second delay before a new price offer is available," said Professor Maroš Servátka, Director of the MGSM Experimental Economics Laboratory.

"In the modern era, the time has become one of the scarcest resources, with even a few seconds delay having a large impact on individual

decisions. We frequently observe that people are willing to trade off their earnings to save time, highlighting that they are very much aware of the opportunity cost."

The decisions of participants were financially incentivised as their final dollar earnings depended on the actual offers they selected, a crucial aspect of the [experimental economics](#) methodology.

"In theory, the time [costs](#) operate in a similar way as the monetary costs would. This means that having a higher monetary cost per offer when selling a house would reduce the extent of searching activities and having a higher [time](#) cost would yield a similar result. Time is money. This is exactly what we found," said Professor Servátka.

"This result is not just beneficial for improving the quality of decision making when selling a house, but for a variety of every day choices that involve searching through available alternatives – such as finding a partner, searching for a lower price when shopping or hiring a new employee," concluded researcher Annie Hsiao.

Provided by Macquarie University

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