Heartstrings and Purse Strings

How Do People's Feelings Affect Their Economic Decisions?

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Scientists in a new field of study called behavioral economics have made some provocative findings about how consumers' feelings affect their buying and selling decisions.

In a study published recently in the journal Psychological Science, the researchers found that emotions that have nothing to do with the transaction at hand can influence what price people are willing to pay to buy something and what price they are willing to accept when they sell. "We're showing for the first time that incidental emotions from one situation can affect economic transactions in unrelated situations," says Jennifer Lerner of Carnegie Mellon University, Pittsburgh.

Research Highlights

Behavioral economics, which probes how psychology shapes the decisions people make in the marketplace, has mostly concentrated on cognitive processes. In one study, for example, researchers found that people are hardly the rational, logical decision makers that textbooks assume. If someone feels she has been cheated, and has a choice of collecting either $5 for herself and $5 for the cheater or nothing at all, she prefers to walk away with zero rather than see the cheater also collect.

Some behavioral economists are now turning to the role of emotions, too, investigating how heart strings affect purse strings. Last year, researchers found that anger makes people assess situations more optimistically, downplaying risks and overestimating potential benefits. Fear does the opposite, making us exaggerate risks and minimize benefits. In fearful times, more people gravitate toward safe investments, like bank deposits.

To see how two negative emotions—disgust and sadness—affect economic decision making, Prof. Lerner and her colleagues recruited 199 volunteers, age 16 to 49. Some watched a scene from the 1979 tearjerker "The Champ," in which a boy's father dies. Others watched the infamous filthy-toilet clip from the 1996 film "Trainspotting." A third group watched an emotionally neutral clip of coral-reef fish. All wrote down how they felt afterward.

Half the volunteers, drawn equally from the three film audiences, then were given a set of highlighter pens (a hot commodity at CMU) and the chance to sell it back at any price from 50 cents to $14. The other half were just shown the set and asked if they would rather receive it or get cash. This was akin to a purchase, because volunteers who opted for the pens had to forgo money for them.

Disgust, the researchers suspect, makes people want to get rid of things; they see everything as tainted. Sadness, in contrast, reflects loss and helplessness, and makes people want to change their circumstances. These effects carried over into the experimental marketplace.

Disgust cut people's selling prices, as the "yuck" factor made them eager to get rid of the pens. Volunteers who felt disgust were willing to unload the pens for only $2.74, on average, compared with the $4.58 demanded by the neutral fish-watchers. Disgust also reduced buying prices. Reluctant to take on anything new, the volunteers would do so only at a rock-bottom price. Yet they had no idea their feelings were affecting their decisions.

Sadness, too, cut people's selling price, to $3.06, compared with what emotionally neutral volunteers demanded for their pens. Feeling blue made people so desperate for change—even one as inconsequential as getting rid of a few pens—that they held a fire sale. Sadness also raised, to $4.57, the price people would pay for the very pens they were willing to sell for just $3.06. Overpaying seemed a small price for change.

'Endowment Effect'

This was a 180-degree reversal of one of the core tenets of behavioral economics. Called the endowment effect, it is the tendency for people to demand a higher price for something they own than they are willing to pay to buy the same item. Psychologically, we place greater value on what we already have. Yet if you've ever overpaid for something, you know there are exceptions.

The CMU results may explain why. "Sadness reverses the endowment effect, making people willing to pay a higher price for something than they were willing to sell it for," says Prof. Lerner. That fits with the common observation that having a bad day can trigger a shopping spree.

Understanding the effect of sadness and disgust could shed light on the economic consequences of emotionally intense events. Economists tend to think consumers open their wallets despite downbeat news. Instead, tragic headlines might be what spurs increased spending.

Do you agree with the researchers' conclusions? Write to ***letters.classroom@wsj.com.***