Public release date: 21-Apr-2008

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University of Chicago Press Journals

When positive thinking leads to financial irresponsibility like compulsive gambling

Looking on the bright side can lead to irresponsible financial behavior, reveals a paper from the June 2008 issue of the Journal of Consumer Research. In a series of studies, Elizabeth Cowley (University of Sydney) examines repeat gambling in the face of loss. She finds that people often engage in too much positive thinking, selectively focusing on one win among hundreds of losses when they think back on the overall experience.

When we want to justify engaging in an activity which could potentially be irresponsible like gambling we may need to distort our memory of the past to rationalize the decision, Cowley explains. People who have frequently spent more money than planned on gambling edit their memories of the past in order to justify gambling again.

For example, Cowley had participants in one study play a computer game in which they could win credits with the financial equivalent of one cent per credit. Each participant played the game 300 times. Everyone experienced one big win and one big loss. But for the other 298 games, one half of the group experienced all small losses, while the other experienced all small wins.

Cowley also manipulated the distance between the big win and the big loss.

A week later, participants were surveyed for their memories of the experience. Surprisingly, Cowley found that even some losers remembered having a positive experience. If the big win and the big loss occurred far apart, losers had fond memories and indicated a willingness to spend their own money on the game.

As Cowley explains, the further apart the big win and the big loss, the easier it was for losers to isolate their memories and focus only on the positive, a 都ilver lining・effect.

The tendency to segregate positive and negative events in a mixed-loss experience is based on the logic that remembering a large gain allows people to feel good even when the objective outcome was negative, Cowley says.

Conversely, Cowley found that winners those who experienced 298 small wins ·were happier when the big win and the big loss were closer together, allowing them to lump all the games together and ignore the big loss. She termed this the ⊞ancellation effect.

When the outcome of an experience including both positive and negative events results in a net gain, people look for ways to integrate positive and negative events to reduce, if not cancel, the pain associated with the negative events, Cowley explains.

The research is the first to consider a motivated memory explanation for justifying irresponsible behavior. Apparently, positive thinking can sometimes be negative.

Elizabeth Cowley, The Perils of Hedonic Editing. Journal of Consumer Research: June 2008.

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About the Journal of Consumer Research: Founded in 1974, the Journal of Consumer Research publishes scholarly research that describes and explains consumer behavior. Empirical, theoretical, and methodological articles spanning fields such as psychology, marketing, sociology, economics, and anthropology are featured in this interdisciplinary journal. The primary thrust of JCR is academic, rather than managerial, with topics ranging from micro-level processes (e.g., brand choice) to more macro-level issues (e.g., the development of materialistic values).