Motivated Underpinnings of the Impact Bias in Affective Forecasts

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We suggest that the impact bias may occur to motivate subsequent behavior. We demonstrate more extreme affective forecasts for personally important and mutable events. Further, the extremity of affective forecasts determines the effort forecasters expend to produce desired outcomes.

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SPECIAL SESSION
On the Psychology of Affective Forecasting: Inconsistency, Antecedents, and Consequences
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EXTENDED ABSTRACTS

“The Effects of Duration Knowledge on Forecasting Versus Actual Affective Experiences”
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Lay people predict that knowing the duration of an aversive episode would improve their experience, whereas knowing the duration of a pleasant episode would weaken their experience. The present research examines this intuition. We hypothesize that the lay prediction of the effect of duration knowledge is inconsistent with its actual effect. That is, rather than weakening the experiences, duration knowledge actually intensifies affective episodes experienced over time.

To understand how duration knowledge influences people’s affective experiences, we need to consider how subjective experiences change over time. We draw on anticipated utility (AU) theory to develop our hypothesis. AU theory suggests that people derive enjoyment/pain from future events (savoring good things and dreading bad things) and the savoring/dreading intensifies as the events draw near (Elster & Loewenstein 1992). When an aversive episode is about to end, people savor the relief more. The positive feelings arising from anticipating the relief contrast with and worsen the on-going negative experience. Similarly, when a pleasant episode is about to end, people dislike the ending more. The negative feelings arising from anticipating the ending contrast with and enhance the on-going positive experience. As a result, duration knowledge decreases the evaluation of aversive episodes and increases the evaluation of pleasant episodes, thereby decelerating hedonic adaptation.

We tested this hypothesis in study 1 with a 2 (experiencer vs. predictor) x 2 (duration knowledge) x 2 (valence) between-subjects factorial design. Experiencers were asked to listen to a short song bite. Half of them were informed about the duration of the song (30 seconds), whereas the other half did not know the exact duration. The song was either recorded by the original singer (positive condition) or by an experimenter with a terrible voice (negative condition). Experiencers evaluated their pain/enjoyment both online and retrospectively. The results showed that the actual effect of duration knowledge was indeed the opposite of the lay predictions. Specifically, predictors indicated that duration knowledge would weaken their experience, rendering a positive event less enjoyable and a negative event more irritating. However, experiencers with duration knowledge actually rated the good song more positively and the bad song more negatively than those without duration knowledge. As expected, real-time rating of enjoyment showed that consistent with prior research on hedonic adaptation, when duration was unknown, the enjoyment leveled off quickly. In contrast, when duration was known, enjoyment became more intense towards the end of the song.

Similar evidence was obtained in study 2 (field study) where we further generalized our findings to relatively long experiences (45 minutes instead of 30 seconds). Study 2 fully replicated study 1. Study 3 further tested the underlying mechanism and identified one boundary condition. The results showed that the duration knowledge effect was eliminated when a pleasant episode was followed by another pleasant episode. Presumably, matching the valence of the target event with the valence of the end of the event reduced the contrast between the on-going experience and the feelings arising from anticipating the end. However, if the duration information was unavailable, the presence of the second episode played a negligible role.

Our work contributes to research on affective forecasting and hedonic adaptation by identifying a circumstance in which the actual effect of duration knowledge contradicts people’s intuition. Duration knowledge interrupts hedonic adaptation by intensifying affective experiences toward the end but people are in general unaware of this effect.

“Belittling Can Be Flattering”
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Suppose that a person receives a guess at her monthly income. Imagine two alternative scenarios: In one scenario, the guess is higher than her actual monthly income (i.e., a flattering guess). In another scenario, the guess is lower than her actual monthly income (i.e., a belittling guess). Which guess will make her happier, the flattering guess or the belittling guess?

Both conventional wisdom and previous research on self-enhancement suggest that people feel happier about flattering guesses than belittling guesses. We, however, found that in certain situations belittling guesses can make people happier, which we call the belittling-is-pleasing effect here.

In one study, for example, we interviewed employees from various companies in China about their monthly salary. Most of these respondents earned about $5,000 per month. The interviewer guessed either that they made $7,500 per month (a flattering guess) or that they made only $2,500 a month (a belittling guess). Respondents receiving the belittling guess were significantly happier.

We propose a dual-route model of affective reactions to explain this belittling-is-pleasing effect. The central premise of our model is that a guess influences the listener’s feelings through two routes, direct and indirect. Through the direct route, the guess indicates the truth. More positive guesses reflect better beliefs from others. Therefore, the better the guess, the happier the listener. Through the indirect route, the guess serves as a reference point by which the listener evaluates the actual value of what she possesses. Here, the better the guess, the less happy the listener is. For example, suppose that you make $5,000 a month, but a friend guesses that you make $7,500 a month. You may treat $7,500 as a reference point, and in comparison, your actual income—$5,000—is relatively low and you feel annoyed and unhappy.

According to the dual-route model, the belittling-is-pleasing effect occurs when the indirect route is more prominent than the direct route. We identify two factors that influence the prominence of the indirect route: whether or not the listener knows the actual value being guessed at and whether she cares more about the consequences associated with the actual value or about others’ impression. We propose that the belittling-is-pleasing effect is more likely to occur when the receiver knows the actual value being guessed at and cares more about the actual value than others’ impressions.

The proposition was tested in a study in which we examined participants’ affective reactions to a flattering guess versus a belit-
tling guess at the bonuses they received. We manipulated both the knowledge of truth, whether the guess was received before or after the participants found out how much bonus they would receive, and the objective of seeking a high bonus, whether they needed the bonuses to make ends meet or they needed the bonuses to leave their friends an impression that their boss treated them well. In support of our proposition, we found that participants favored the belittling guess over the flattering guess only when they knew their actual bonuses and sought a high bonus for its own benefit.

In sum, our research shows a counterintuitive belittling-is-pleasing effect and specifies when it occurs. Our theory enriches existing literature on self-enhancement and impression formation, and yields practical implications for marketer-consumer relationships.

“Motivated Underpinnings of the Impact Bias in Affective Forecasts”
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Affective forecasters exhibit an impact bias, whereby they overestimate the emotional reaction to future events. The impact bias has been shown to occur unintentionally, resulting from biases in attention and memory a failure to correctly anticipate hedonic adaptation, and erroneous lay theories about which features of events matter most. It is a robust bias. People not only overestimate the hedonic impact of events repeated once, they overestimate the hedonic impact of events they have experienced frequently.

Given its resistance to feedback, it seems worth examining whether the impact bias might persevere because it confers some benefit to forecasters. As anticipated and experienced emotions are potent sources of motivation, affective forecasters may exaggerate their forecasts to motivate themselves to produce desired outcomes.

This hypothesis makes three predictions, which were tested in four experiments. First, the impact bias should be greater for events of greater personal importance. In line with the first prediction, Study 1 found that the more hockey fans considered a hockey game to be personally important, the more likely they were to overestimate how happy they would be if their team won. (Previous research has shown that sports fans believe that they can personally control the outcome of sporting events).

Second, the hypothesis predicts that the extremity of affective forecasts should influence the effort expended to produce desirable outcomes. In Studies 2 and 3, low and high standards of comparison were used to induce contrast effects that experimentally manipulated the extremity of affective forecasts for desirable outcomes. Subsequent mental (Study 2) and physical effort (Study 3) expended to produce those outcomes were recorded. As predicted, participants first exposed to a lower standard made more extreme forecasts than did participants exposed to a higher standard, and consequently expended more effort to produce the desirable outcomes. As the extremity of forecasts mediated the effect of the contrast manipulation on mental and physical effort expended, Studies 2 and 3 suggest that extreme affective forecasts motivate forecasters to produce desired outcomes.

Third, forecasters should make more extreme forecasts when they believe they can influence an outcome than when they believe they cannot. This was tested in Study 4. Participants forecasted how happy they would feel if they won $5 in a die-roll before rolling the die, or after rolling the die (while the outcome of the roll was unknown). A separate condition experienced winning/not winning $5 after rolling a die. Participants who made forecasts before rolling the die predicted they would feel happier if they won than did participants who made forecasts after rolling the die. Participants who experienced winning $5 also made less extreme forecasts, similar to participant who made the forecasts after rolling the die. Thus, participants made more extreme forecasts when they were able to influence an outcome that had yet to be determined than when it was determined but unknown or when it was experienced.

Errors in affective forecasting are often costly. They may lead patients to make medical decisions based on erroneous predictions of the impact that declines in their health will bring, parsimony among voters who overestimate the ineptitude of opposing parties, and so on. It is questionable, however, whether people would exercise, mend broken relationships, or spend late nights in the office if they accurately forecasted how easily they would adapt to sickness, solitude, and a larger income. This research is the first to suggest that errors in affective forecasting may confer some benefit—they may provide the motivation necessary to achieve the outcomes one desires.

“Can Consumers Make Smarter Investment Decisions By Improving Their Affective Forecasting?”
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This research seeks to better understand how consumers’ investment decisions can be improved by reducing the “affective forecasting error” (Kermer, Driver-Linn, Wilson and Gilbert, 2006; Gilbert & Wilson, 2000). Gilbert has shown that humans tend to misforecast their affective reactions to both good and bad events. For example, people predict that winning the lottery would significantly increase happiness and that losing a limb would permanently impair quality of life. However, these predictions have been shown to be wrong. Lottery winners are no happier than non-winners and amputees’ reported quality of life rebounds more quickly than forecasted.

Psychological research examining the impact of goals on performance has demonstrated an interesting and relevant paradox. According to Garland (1984) people who set higher goals tend to perform better than those who set lower goals or no goal, yet feel worse about their performance.

Heath et al (1999) offer an explanation for this paradox. Like Gilbert’s experiments, Heath’s subjects read hypothetical vignettes about two individuals who were facing the same task (e.g., taking a test) but starting with different goals (e.g., hopes to get a score of 90 versus hopes to “do her best”). In the scenario, both individuals experienced the same outcome, sometimes exceeding the individual’s goal and other times falling short of the goal. Subjects’ forecasts of these individuals’ affective states showed that goals serve as reference points dividing successes from failures, and that loss aversion and diminishing sensitivity also exist.

We strive to reduce loss aversion and thus improve the affective forecasting ability of individuals by giving them the opportunity to learn from their own or others past actions. We ask whether people can learn to correct for the affective forecasting error by experiencing it for themselves or receiving feedback on the discrepancies between their forecasts and actual feelings and if this frees them to be more risk-seeking.

Participants made a series of investment decisions and were paid based on the performance of the funds they select. Participants were randomly assigned to one of two conditions (see Fig. 1). Individuals in the no experience condition made a series of 24 investment decisions, using detailed information on nine actual mutual funds that varied in their level of risk. After each selection, participants were given their investment’s performance (a range of predetermined outcomes in a random order) and asked to report their affective reaction.
Individuals in the first-hand experience condition predicted their affective response to 12 hypothetical outcomes. These differ from actual decisions in that the subjects are merely told the outcome for a given period and asked to respond to it, rather than go through the fund selection process. Following this, they made a series of 12 investment decisions as described above. After reporting their affective state, they received feedback on the discrepancy between their actual feelings and their forecasts from the hypothetical phase.

All participants engaged in a second phase of hypothetical outcome forecasting that was 10 periods long. Following this task, individuals made eight actual investment decisions. Again, the actual outcomes came from a pre-determined set. After each outcome, participants reported their affective state. These last responses were compared to the affective predictions reported to measure the size of participants’ affective forecasting error. Contrary to previous literature, simple experience was enough to show significant improvement in affective forecasting. Over and above this, explicit feedback had a marginal effect of improving forecasting. The impact of improved forecasting on fund selection and risk-seeking is discussed. This suggests that practice makes perfect, and that even simulated practice could be beneficial to investment decisions.