

## “Spend or Save?” Decisions Made by Teens’ on Behalf of Self or Others

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### Abstract

People make financial decisions for themselves and are often asked to make financial recommendations for others. These decisions may involve a time horizon where people must decide how much money to spend immediately and how much to save for the future. Since personal decisions tend to be private while recommendations made to others are necessarily public, “self-enhancement” suggests that people would be more likely to take a longer term perspective when making recommendations to others than when deciding how to spend their own money since they would want to seem like they are advising others to act in a “responsible” manner. This was tested on 70 high school students. Half of the students were given a hypothetical scenario in which they were given a gift of \$1000 and were asked how much they would immediately spend and how much they would save. The other half were given a hypothetical scenario in which a friend was given a gift of \$1000 and were asked how much they would recommend that their friends save or spend. Results confirmed the hypothesis as students recommended, on average, that their friends save twice the amount that they themselves would save.

### 1. Introduction

Decisions are a major driving force in the world. One type of decision is one made for oneself. A second type of decision is one made for someone else, while the outcome of that decision has no impact on the self. Today, most of the important decisions in a person's life are made by a coequal (Yates, 1990). Previous studies have discovered that decisions made for the self, are different than decisions made for a significant other on the same topic. It has been observed that decisions made for another are taken with a greater degree of caution, than those decisions made for oneself (Beisswanger, et al., 2003; Stone, et al., 2002; Small, 2007; Fernandez-Duque & Wifall, 2007). Scientists have taken this overall theme of decision outcomes, and have tested them across many horizons. Some of which include information pursuit (Jonas, et al., 2003), perception (Pronin, et al., 2008), cognitive bias (Zikmund-Fisher, et al., 2006), attribute value weighting methods (Kray, 2000). While most research has investigated self vs. other decision making on a variety of issues, significant research has yet to be done on self vs. other decision making in regard to money.

#### 1.1 Self vs. Other Decisions: Emotion

Human decisions for others often boil down to altruism. Altruism is practice of selfless concern for the well-being of others. This evolutionary trait has stuck with humans over the course of millions of years. Altruism can usually be explained with an emotional tie. Thus, decisions made for others are often made with a small bias of emotion. Research has shown that emotion can definitely sway a decision (Loewenstein & Small, 2007; Batson, 2003; Small, 2007; Slovic, 2007). Hsee has discovered that “feelings” are a major factor when someone is making a decision (Hsee, et al. 1997). The general understanding is that a cost is incurred to the self, if help is given to another (Camerer & Thaler, 1995). Going against altruism is the theory that “Help is given for a social advantage as a return.” This leads us to debate the true value of “generosity” as it is present in humans. Are we generous because we want to be? Or is there another motive behind the “kind” deed? While our study doesn't account for emotional bias, it is important to understand the gravity of it as it can easily govern the results of a “self vs. other” decision making study if placed under the proper circumstances.

## 1.2 *Self vs. Other Decisions: Risk*

Risk is another factor that should be considered when discussing decisions. If a person is making a decision for someone else then, there are many things that they will take into account before formulating their decision. For example, the risk-as-value notion states that "People tend to see others as less of risk takers, as opposed to themselves" (Brown 1965; Clark, et al. 1971; Lamm, et al. 1972; Wallach & Wing, 1968). While the risk-as-feelings hypothesis (Hsee, et al. 1997), states that "People predict others to have similar risk preferences to themselves, but they predict others to be more risk neutral than themselves." Recently, scientists have taken the initiative to review risk-taking in youth. Mandeep and Mandel have discovered that youth decision making supports a bounded-rationality perspective (Mandeep & Mandel, 2012), which is when people tend to make satisfying (as opposed to a maximized/optimized) choices when placed under complex situations. With all of this in mind, our experiment investigates the decisions of high schoolers when placed under a mild risk bias.

## 1.3 *Self vs. Other Decisions: Money*

Our study attempts to delve deeper into the field of "self vs. other" decision making for money. Significant research has been conducted on the topic of financial decisions when risk is factored in. Research without money-related outcomes (Beisswanger, et al. 2003; Kray, 2000; Polman, 2012; Zikmund-Fisher, et al. 2006), and with theoretical outcomes (Bartels & Rips 2010; Borresen, 1987; Hsee & Weber, 1997) have been conducted.

Brian Wallace (Wallace 2014) evaluated the self vs. other decisions with money. He proposed the "self enhancement" hypothesis, where one would show patience to make themselves "look" better. He hypothesized a self-enhancement effect. The subjects were given two options. The subjects could take the money now, or wait a while and accept a greater value of money at a later time. The same questions were asked to a different group of subjects in which they were asked to specify which choice they would make for others. The subjects would have to display patience to gain the maximum gratification. His study found that the self would be more likely to be impatient with giving other people money, than rewarding themselves with money. The self would demonstrate acceptance of delayed gratification in order to gain the maximum amount of money.

Wallace's experiment assumed a condition in which people do not already have the money. Therefore, self-enhancement could logically imply patience when making decisions regarding one's own money by taking a longer term view of rewards than when making decisions regarding other people's money. However, when someone already has money, self-enhancement could lead to a seemingly contradictory result. Here when offering advice to others regarding money management, we hypothesize that self-enhancement would lead someone to recommend that others would take a longer term view of their finances and save rather than spend their money as this is the more societally "responsible" thing to do. Therefore, we hypothesize that when making self vs. other decisions regarding how much money already-owned money should be saved vs. spent, people will recommend to their friends to save more of their money than they themselves would save.

## 2. Methods

### 2.1 *Participants and Procedure*

Seventy 9th and 10th graders from Tuscarora High School in Leesburg, Virginia participated in the study. These students were randomly assigned to the two different survey conditions. In one condition, students are presented with a hypothetical situation in which they were given a gift of \$1000. They are asked to state, in writing, how much of that money they would spend on themselves and how much they would save. In the second condition, students are presented with a hypothetical situation in which a friend receives a gift of \$1000 and asks the student for advice on what to do with the money. Students are asked to state, in writing, how much of that money they would tell their friend to spend on him/herself and how much they would tell their friends to save. We note the slight lack of parallelism in how the questions are framed for decisions involving self vs. others. Participants are asked about decisions that they would make on behalf of themselves and recommendations they would make to others. We argue that this is ecologically valid since teenagers would not be asked to make decisions regarding large sums of their friends' money, thus making a decision to decision comparison artificial and not reflective of real world situations. Similarly, the idea of making a recommendation to oneself about how to spend or save \$1000 also seems unnatural. One typically decides what to do with money rather than to treat oneself as an advisor rather than a decision maker.

### 3. Results/Discussion

The dollar amounts indicated by each participant were recorded. In all 70 cases, the amounts that the participants wrote for saving and spending added to the full \$1000. Therefore, in analyzing the data, only the amounts that the participants gave for spending are used since the amounts for saving are completely derivable from the spending amounts.

On average, participants indicated that they would spend \$678.57 on themselves and save the rest, while recommending that their friends spend \$331.43 on themselves and save the rest. This was more than a 2:1 ratio. This difference was statistically significant,  $t = 4.93$ ,  $df = 68$ ,  $p < .0001$ , confirming the hypothesis that people tend to take a longer term view when making decisions affecting others than when making decisions affecting themselves. This is consistent with the self-enhancement explanation offered by Wallace (2014) as participants took a longer term, more "responsible" view of their friends' money than their own.

### 4. Conclusion

The results supported the hypothesis that participants, in this case teenagers, would take a longer term view when making financial recommendations for others than when making financial decisions for themselves. This is consistent with Wallace's (2014) self-enhancement explanation. One thing that is particularly noteworthy in this study was that the ratio of the amount a participant would recommend a friend save to the amount that s/he would save is more than 2:1. One factor that may have mediated this discrepancy was the public/private nature of the decision/recommendation. Any recommendation made to a friend would, by definition, be public. On the other hand, any decision made on how much personal money to save would likely be private. Therefore, there is more opportunity for self-enhancement in a public recommendation than in a private decision. Accordingly, it would be interesting to investigate whether the participants' decisions would be different if either both decisions were public or both were private.

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