INTERTEMPORAL CHOICES 2

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4. in choices over sequences of outcomes, improving sequences are often preferred to declining sequences though positive time preference dictates the opposite; and
5. in choices over sequences, people seem to prefer spreading consumption over time in a way that diminishing marginal utility alone cannot explain.

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- **small outcomes are discounted more than large ones**

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- **Save the best/better thing for last.**

Dinners and weekends

	*week*1	*week*2	*week*3	*week*4	*week*5
A	*french*	home	home	home	home
B	home	home	*french*	home	home

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C	*french*	home	home	home	*lobster*
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- $B \succ A$ (89%)
- $C \succ D$ (49%)

- This result could be explained by the simple desire to spread consumption over time.

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- Procrastination

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- After eating the cake, I once again intend to follow a diet in the future.

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- This makes it more attractive to invest in alternatives providing a higher expected return in the longrun.

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- Over only 28 months the average savings rate rose from 3.5% to 11.8% of income.

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- What if this is not the only reason for high debts?

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- Decision makers are real tax payers MA, USA. Typically low income.

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- Creditworthiness are associated with long-run discount factors

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  - if offered a choice between two rewards that differ only in delay, individuals tend to choose the reward available sooner rather than the one available later.
  - if offered a choice between two alternatives that differ only in probability, they tend to choose the more certain reward.

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- To decide whether to purchase a less expensive item that can be enjoyed now or to save for a more expensive one
- To choose a risky investment that potentially could pay off at a high rate or one that pays a low but guaranteed rate of return

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- Decision making with delayed and probabilistic outcomes involve the same underlying processes ??? (if followed this line of thought)

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  - temporal discounting arises because with longer delays there could be a greater risk that the expected or promised reward will not actually be received.

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- Subjects also took two different tests of cognitive ability

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- Y will increase by a factor 2.5 percentage point - which helps to measure the time preferences

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- Individuals with higher cognitive ability are significantly more willing to take risks in the lottery experiments, and are significantly more patient over the year-long time horizon studied in the intertemporal choice experiment.