Research Project

SNF-Sinergia: The Foundations of Successful Financial Decision Making

Third-party funded project

Project title SNF-Sinergia: The Foundations of Successful Financial Decision Making
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Demographic change has resulted in many aging Western societies facing major financial challenges, including the question of whether social security and pension systems are well funded for the future. These developments are likely to force individuals to assume increasing responsibility for their financial decisions, such as saving and investment across the life cycle, with important individual and societal consequences. This requires financially savvy individuals who are able to make adequate financial decisions. The goal of the proposed project is to explore the factors that lead to individual variation in financial decision-making and, ultimately, successful financial outcomes.

Daniel Bernoulli's (1738) expected utility theory paved the way for important concepts and measurements of utility and risk in economics and psychology. Regrettably, Bernoulli's emphasis on the importance of individual circumstances and characteristics has received little attention in these fields, with the orthodox view in economics being to ignore differences in preferences "among men and periods" (Stigler & Becker, 1977). Importantly, even recent approaches of behavioral economics and finance that depart from rational views on human decision-making do not fully acknowledge the importance of inter- and intra-individual differences that can lead to thriving or withering in the financial marketplace (Akerlof & Shiller, 2009; Kahneman & Tversky, 1979). In this project, we aim to fill this gap by investigating the cognitive and motivational origins of individual differences in financial decision-making and evaluate their relative contribution to successful real-world financial choices.

We aim to adopt an interdisciplinary approach by linking insights from cognitive psychology, decision neuroscience, behavioral finance, and developmental psychology to pursue several important goals: First, building upon and going beyond recent research we will access individual variation in financial decision-making using a collection of different behavioral paradigms and measurement tools, including investment behavior at laboratory asset markets that identify and isolate crucial investment phenomena that are hypothesized to underlie real investment situations. Second, we will contribute to decomposing the sources of variation in decision making through cognitive modeling and neuroimaging techniques designed to uncover basic cognitive and motivational processes. Third, using field studies we will assess the relative contribution of specific cognitive and motivational processes to individual and age differences in real-world financial choices. Overall, the project promises a deeper insight into individual variation in financial decision-making and, ultimately, the development of personalized intervention programs that can improve individual financial decisions.

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