

# Ackoff Doctoral Student Fellowship: 2012 Application

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The Impact of Individual versus Societal Optimism  
on Risk-taking and Decision-making under Uncertainty

**Alixandra Barasch**

Doctoral Student  
Wharton Marketing Department

**Mailing Address:**

Suite 700 Jon M. Huntsman Hall  
3730 Walnut Street  
Philadelphia, PA 19104  
Office Phone: 215-573-7074  
Email: abarasch@wharton.upenn.edu

**Faculty Advisor:**



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Barbara Mellers, Marketing Department

**Requested Support:**

\$ 3225.00

## Description of Research Project

Optimism, or the inclination to expect favorable life outcomes, is a construct that has been studied in many domains ranging from health and academic achievement to sports and gambling. Recently, optimism's influence in decision processes, such as risk-taking under uncertainty, has gained increasing attention. For example, optimism is positively correlated with consumers' decisions to save more and invest in individual stocks, although extreme optimists display financial habits and behavior that are generally viewed as imprudent (Puri and Robinson 2007). Other studies show that optimists are less likely to be maximizers and tend to feel better off as the number of options increase (Schwartz, Ward, Monterosso, and Lyubomirsky 2002). In marketing, research has shown that optimism and pessimism have significant and unique influences on consumer shopping behavior (Kahle, Shoham, Rose, Smith, and Batra 2003), and that optimists and pessimists adopt different information processing styles (Wang, Yang, and Peracchio 2009).

Much of the work on individual optimism has investigated the tendency for people to believe they are more likely to experience positive events than similar others, a phenomenon known as "unrealistic optimism" (Weinstein 1980). Many cognitive, affective, and motivational explanations have been given as to why people generally judge that positive events will occur in their lives and negative events will not, which is generally self-protective and associated with both physical (Scheier and Carver 1987) and psychological (Carver and Gaines 1987) well-being. However, unrealistic optimism can have a negative influence on personal risk judgments and objective risk factors (Weinstein 1987), and can encourage risk-seeking behavior such as imprudent investments in new inventions (Astebro 2002). Unrealistic optimism has been shown to undermine interest in risk reduction (Weinstein 1982) and has been associated with processing deficits, defensiveness, and an inability to learn about risk factors in health contexts (Radcliffe and Klein 2002).

This work has explored the effects of optimism on decision processes at the "micro" level. Yet despite the fact that many individuals are overly optimistic about their own futures, at least some of those same people seem to be pessimistic about society at large. Surveys show that many share the view that numerous aspects of society are changing for the worse, including the moral climate, the training of our children, the lot of the average man, and crime and safety (Eibach, Libby, and Gilovich 2003). Steven Pinker (2011) recently wrote a book claiming that violence has actually been declining over the millennia, precisely to dispute this global, pessimistic belief that we are living in the most violent era of human existence. There seems to be a need to focus on the measurement and effects of optimism at this societal level, such as outcomes related to the economy, politics, and environment (Tetlock 1994).

Are people simultaneously optimistic about themselves and pessimistic about society? What are the individual correlates of optimism at these two levels? And why might these differences exist? Barbara Mellers (I. George Heyman University Professor of Marketing, University of Pennsylvania) and I seek to understand the relationship

between *individual optimism* and *societal optimism*, or the tendency for a person to expect that outcomes related to society will be favorable in the course of one's lives.

We are also interested in how people who display different patterns of optimism and pessimism at individual and societal levels differ in their judgments, decisions, and risk attitudes. Individual optimism has shown to affect judgment and decision making in risky domains, and societal optimism should have similar effects in broader contexts. For example, Bandura (1997) showed that collective optimism predicts active engagement in politics, such as voting behavior. Are societal optimists less likely than pessimists to protect themselves from catastrophic risks? If so, are those who feel optimistic on both dimensions least likely to engage in protective actions and proactive thinking about future calamities? We hypothesize that increased optimism about the future of society will translate into more active investments and risk-seeking behavior. At the same time, increased optimism about society could result in more thoughtful planning for worst-case scenarios. This is one of many research questions that Dr. Mellers and I would like to address empirically.

Of course, societal optimism depends on many factors (Li, Johnson, and Zaval 2011). We are interested in exploring the intriguing puzzle of what underlying psychological mechanisms account for possible differences in individual and societal optimism. For example, self-construal, or the image one has of oneself (Markus and Kitayama, 1991), might play a role in how individuals from different cultures judge the future. Westerners, who tend to be more individualistic and independent, may view society with greater pessimism than East Asians, who tend to be more interdependent, and this could influence these individuals' decision-making and risk-taking.

In a series of preliminary studies, we have begun to develop a joint individual and societal optimism scale. The two components correlate with different demographic variables and psychological measures. We hope the research will not only contribute to a better understanding of decision making under uncertainty, but also to the psychological mechanisms behind optimistic beliefs at multiple levels and the role they play in risk-taking.

I hope the Ackoff Fellowship will give me the opportunity to build on these preliminary findings and explore the relationships among optimism, culture, and decision processes. Although this project is in the initial stages of data collection, I am confident that the findings will be interesting and relevant for publication in top-tier marketing or psychology journals.

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