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Too Much Caution Hinders a Turnaround

"By any measure, the global economy is facing unusually high levels of uncertainty and volatility. But human nature may be impeding our ability to turn the economy around." - *NYTimes.com*

Richard H. Thaler, economics professor at UChicago's Booth School of Business, cites IPA Research Affiliate **Eldar Shafir**'s experiment in a New York Times article to illustrate how being overly cautious about future conditions can delay action when it may be needed most.

"Along with making people irritable, uncertainty can create paralysis. Some animals freeze when they are frightened. Acting like a deer in the headlights can be a good strategy if you are trying not to be seen, but it can get you run over.

In humans, this behavior is illustrated by an experiment conducted by the Princeton psychologist Eldar Shafir. The subjects, who were graduate students, were told about an attractive deal for a spring-break vacation. They could get an especially good price if they bought their tickets now, rather than waiting a week. But, as part of the deal, the students wouldn't hear the results of an important exam until the discount expired. That uncertainty caused many students to freeze: Although a majority said they intended to take the trip whether or not they passed the exam – either to celebrate their success or recover from failure – they didn't want to buy the tickets until they found out the results.

I worry that many Americans are now acting like Professor Shafir's subjects. They know that there are investments they should be making, investments that are currently on sale, but they are waiting to see how things shape up before they act."

[Read the full piece.](#)

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