Decision Processes Colloquia

Monday, February 10, 2020
Where: 270 JMHH
When: 12:00 – 1:20 pm

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Depletion Aversion: People Avoid Spending Accounts Down to Zero

ABSTRACT:

We document the phenomenon of “depletion aversion:” people avoid spending from accounts when doing so would completely deplete those accounts, even when depleting the accounts might make financial sense. For example, we find that people would rather pay a $500 expense from an account with a $1000 balance than from one with a $500 balance, even if the $1000 account pays interest at a higher rate. We consider why this effect may arise, and we identify boundary conditions of the effect. Broadly speaking, depletion aversion seems to arise for savings-oriented accounts (e.g., typical bank accounts) but not for spending-oriented accounts (e.g., gift cards, or accounts earmarked for a specific expense, such as a vacation savings account). We consider implications for saving and spending.