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Essay 1 Rough

Draft

"Better Find Contentment in Your Pursuit"

Just recently Steven Grue, owner of a nearby Nissan dealership bought his brand new Ferrari. For the next few days he proudly drove in and out of his car lot offering to take fellow employees for a ride. The following week the Ferrari was gone and he was sporting his brand new Porsche 911. What happened to Steven's Ferrari? He sold it, and in less than one week he was bored and needed a new thrill ride. So he bought a Porsche that would gratify him for months maybe even years to come. Or would it?

This is a classic situation of what one psychologist likes to call "Affective Forecasting," (Gertner, 3003). Maybe "Ineffective Forecasting" would be more accurate in Steven's case. What is happening in Steven's situation is he is inaccurately predicting how he is going to feel about his new car in the future. In making these future predictions, psychologist Daniel Gilbert of Harvard University, has found that we as humans tend to make two fundamental errors in predicting the future. The first is that we overestimate the *intensity* of future situations. For example students may imagine how horrible they will feel after receiving an "F" on a test, or similarly how fantastic they think they will feel after receiving an "A." In reality these intensities tend to only deviate from a set point, say equilibrium, by only a certain amount depending on the individual. That is to say, each person may have a fixed point of happiness where they tend **to be**

near. As that individual experiences an especially upsetting or exciting situation their overall level of happiness may change by very little yet they predict it will change by much more. The second mistake we make is to assume the *duration* of this pain or pleasure will be much longer than it actually it. According to Daniel Gilbert, we will predict the death of a loved one will leave us feeling horrible for years to come, maybe even a lifetime. In relation to Steven's problem, Daniel Gilbert is showing that Steven simply looses interest in his new exotic cars quicker than expected. Steven may think if his next exotic car is better or faster than the previous one he will be more satisfied with it, yet the speed at which he sells it may be an indication of his quick loss in interest.

So what does this have to do with Economics? Economists basically say the higher ranked bundle we consume the happier we are. Economists also assume we are fully informed and capable of ranking bundles. More specifically they say we only have ordinal preferences meaning we can only rank bundles in a certain order, but that we do not have cardinal preferences which is the ability to rate our intensity of likes to these bundles. **If consumers are unable to accurately predict their feelings towards goods are they incorrectly ranking their bundles? Considering we give bundles cardinal rankings, does that have any impact on our ordinal rankings?** The fact that we as consumers give bundles cardinal rankings does not lead to misallocation of resources. As we begin our process of decision making, our first step is to assign ranking to each bundle subject to our budget constraint. Once this assignment of rankings is done we will simply chose the bundle nearest our budget constraint. The use of cardinal rankings is only useful when describing the bundles. Explaining you like car A more than car B only gives another individual an understanding of the intensity of your likes or dislikes, but you will still chose the bundle ranked higher. **In consideration of Steven's issue of his cars, he most likely thinks his new car will please him for longer. Does he misallocate resources due to an incorrect ranking of these bundles?** My answer would be yes he does, but to what extent will never be known. For example let's assume Steven is debating between trading his week-old Ferrari in for a new Porsche, or selling his Ferrari and investing in the stock market. It is fairly reasonable to assume the performance of the stock market in the next 20 years will be stable and increasing. If he were to invest in the stock market his money would be somewhat safe and give him the satisfaction of a safe retirement and financially secure family life. He then looks at his Porsche and assumes it will keep him happy, possibly indefinitely. As he sells the Ferrari, probably for about 95% of the original value one week prior, he loses a few thousand dollars. He next buys the Porsche and maybe sells it a week or two later once again losing a few thousand dollars. Five years down the line, or as long as it is sustainable, Steven has lost thousands of dollars and feels the exact same level of happiness before buying and selling his exotic cars. If he were to choose the path through the stock market he would still be at the same level of happiness yet he would at least have the same amount of money the Ferrari was worth when he sold it, if not more.

Steven is thriving on his *pursuit* of happiness. Like the rest of us, Steven is doing what researcher George Lowenstein blames on the "empathy gap," (Morey, 2006). The empathy gap is the difference in how someone feels about a certain set of bundles based on their current chemical/emotional state. While imagining the new car Steven feels excitement possibly from chemicals in his head such as dopamine. This is very similar to how many drug users report feeling. These drug addicts explain feelings of excitement and pleasure in the “chase” of the drugs, but claim to dislike using them **(Missing citation)**. Another example is people who participate in sex without protection such as a condom. Most individuals when asked during a calm state (not in a state of arousal) claim they would never participate in sex without a condom with random partners, yet there are a number of individuals who will actually do so (Morey, 2006).

Many economists argue that the means to an end aren’t as important as the end itself. In this situation it is the means to the end that is equally important if not more important. It is the *pursuit* of happiness that drives us to do what we do, not happiness. When we see a bundle of goods, we simply imagine how we will feel after purchasing them. According to Daniel Gilbert we do not know how we will feel in the end. Our decisions are based on imagination when considering/ranking our bundles. It is this process of imagination that determines our happiness because it is more prevalent than the short-lived feelings of excitement or sorrow. We imagine buying a new car, or TV, and it makes us feel good inside so we go and buy it. After buying it we still feel good, probably better than before, but slowly we will acclimate to the new toy, and get bored with it. Once this happens our level of happiness has just moved back to its equilibrium point and we imagine our next toy to buy. The cycle starts over, and for most Americans, who cannot afford new toys daily, the imagination process is much longer than that of the enjoyment itself.

Steven traded the Porsche in soon after as well.

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