The School of Psychology invites you to a Special Seminar with

Dr. Shahar Ayal
The School of Psychology
Interdisciplinary Center (IDC) Herzliya

on:

Winning the Battle but Losing the War:
The Psychology of Debt Management

Tuesday, April 05, 2011, 10:30, Faculty room,
IDC Herzliya Campus

When people carry multiple debts, how do they decide which debt to repay first? Rationally, they should repay the debt with the highest interest rate most quickly. However, because people tend to break complicated tasks into more manageable subgoals, and because losses are most distressing when segregated, we hypothesized that people would pay off the smallest loan first to reduce the total number of loans and achieve a sense of tangible progress. Consistent with our hypothesis, four experiments revealed consistent evidence of debt account aversion: Participants consistently paid off small debts first, even though the larger debts had higher interest rates. We will discuss the implications of this costly mistake and suggest debiasing techniques to increase the rationality of debt repayment behavior.