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Goals and Psychological Accounting

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Abstract:

We model how people formulate and evaluate goals to overcome self-control problems. People often attempt to regulate their behavior by evaluating goal-related outcomes separately (in narrow psychological accounts) rather than jointly (in a broad account). To explain this evidence, our theory of endogenous narrow or broad psychological accounts combines insights from the literatures on goals and mental accounting with models of expectations-based reference-dependent preferences. By formulating goals the individual creates expectations that induce reference points for task outcomes. These goal-induced reference points make substandard performance psychologically painful and motivate the individual to stick to his goals. How strong the commitment to goals is depends on the type of psychological account. We provide conditions when it is optimal to evaluate goals in narrow accounts. The key intuition is that broad accounts make decisions or risks in different tasks substitutes and thereby create incentives to deviate from goals. Model extensions explore the robustness of our results to different timing assumptions and goal and account revision.

Text: See [Discussion Paper No. 5802](#)



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