

Journal of Marketing Research

FOR IMMEDIATE RELEASE

August 12, 2015

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Paying Off Small Debts First May Get You in the Black Quicker

In debt and don't know what to do? Conventional economic wisdom says to pay off high-interest loans first. Yet according to a new study in the *Journal of Marketing Research*, paying off your smallest debts first can provide the motivation you need to successfully pay off even the most burdensome debts.



“Winning what are known as ‘small victories’ by paying off small debts first can give consumers a real boost in eventually paying off all their debts,” write the authors of the study, Alexander L. Brown (Texas A&M University) and Joanna N. Lahey (Texas A&M University). “The reason is that meeting a small goal provides the motivation to then meet a larger goal.”

The authors conducted an experiment to test two predictions. The first was that people can motivate themselves to complete a large task by completing a small one first. In other words, the optimal arrangement of tasks is from smallest or easiest to largest or most difficult. The second was that the optimal arrangement of tasks is to have tasks of equal length. That would be the case if the closer someone comes to completing a task, the greater his or her motivation becomes. In the experiment, subjects were asked to retype 150 ten-character strings in a Microsoft Excel workbook.

The authors found that subjects completed a tedious task faster when it was broken up into parts in order of ascending length compared to descending or equal lengths. Further analysis showed that subjects sped up as they approached the end of Excel columns and slowed down at the beginning of columns—that is, motivation increased as the end of the task got closer. On balance, subjects completed tasks faster when the tasks were arranged from smallest to largest, confirming that the “small victories” approach is effective.

“The increased motivational benefits of small victories may make it beneficial to pay off debts from smallest to largest in some cases, ignoring interest rates. However, there are limits on when this approach will be effective. The increase in motivation may not offset the additional interest accrued by not paying,” write Brown and Lahey.

Alexander L. Brown and Joanna N. Lahey. “Small Victories: Creating Intrinsic Motivation in Task Completion and Debt Repayment.” Forthcoming in the *Journal of Marketing Research*. For more information, contact Alexander L. Brown (abrown@econmail.tamu.edu) or Mary-Ann Twist (mtwist@ama.org).

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