The Importance of the Time Horizon For Investments

The perception of time in a society, and the availability of patience, have significant impact on its development. The study "Universal Time Preference" by professors Mei Wang, Marc Oliver Rieger, and Thorsten Hens combines a number of international studies concerning time and aggregates their data. The results hold considerable predictive power for the future development of 117 countries around the globe.

Albert Einstein already proved that the progress of time is relative. Professor Dr. Mei Wang of WHU – Otto Beisheim School of Management and her two co-authors Professor Dr. Marc Oliver Rieger (University of Trier) and Professor Dr. Thorsten Hens (University of Zurich) have approached the topic of time less from a physical perspective and more from a social science and mathematical perspective. Their study "Universal Time Preference" comes to the conclusion that time is relative and that its perception, expressed in terms of patience, is primarily dependent on the culture in question.

The three economists’ study combines the collected data of previous research publications and puts the results in context. When making decisions, we often have to choose between short-term costs and higher long-term returns. People or cultures that are particularly patient in this regard and do not mind waiting a little longer for their returns can achieve more in the long run. For example, if a country increases its gasoline prices today, it will benefit from a smaller ecological footprint tomorrow and will eventually produce fewer greenhouse gases. If societies now invest in education, they will generate better job prospects later on. The list of examples is extensive and exponential. The attitude of a society towards time thus has predictive power for real life events.

Despite the differences in the methods used to conduct the original measurements, Professor Mei Wang and her co-authors were able to show that all these measurements have a common factor. Thus, as a synthesis of these measurements, the study calculates cultural differences in attitudes toward time. This attitude then has an influence on a wide variety of social areas, such as:

- The equity risk premium for private investors,
- a country’s level of education, measured by the average years in school,
- the country’s level of development, measured by the Human Development Index,
- the credit rating of the country,
- commitment to environmental protection with regard to increased gasoline prices, and
- resilience to crises, measured by the FM Global Resilience Index.

The study’s new approach allows previous research on time preferences to be reevaluated. In addition, the new dataset for 117 countries provides a solid foundation for further work on the effects of differences in attitudes toward time.

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Original publication:
https://doi.org/10.1371/journal.pone.0245692

The perception of time has severe consequences for a society's development