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The Economic Impact of the COVID-19 Pandemic on Individual Decision-Making: Uncertainty, Mood, and Behavioral Shifts

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Posted Date: 10 June 2025

doi: 10.20944/preprints202506.0838.v1

Keywords: Covid-19; Decision-making

 doi:10.20944/preprints202506.0838.v1

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The Economic Impact of the COVID-19 Pandemic on Individual Decision-Making: Uncertainty, Mood, and Behavioral Shifts

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Abstract: The COVID-19 pandemic has significantly altered the global economic landscape, impacting not only macroeconomic systems but also the financial behaviors and psychological states of individuals. This paper investigates the economic consequences of the pandemic at the individual level, focusing on decision-making under uncertainty and the role of low mood in shaping financial choices. Integrating perspectives from behavioral economics and cognitive psychology, we examine how heightened uncertainty, perceived loss of control, and affective disturbances, such as anxiety and depression, have influenced economic behaviors including risk tolerance, time discounting, and consumption postponement. The findings suggest that economic decision-making during crises is deeply intertwined with psychological conditions, revealing how emotional priming, stress-related cognitive distortions, and uncertainty-induced pessimism can lead to suboptimal financial choices. These insights underscore the need for interdisciplinary approaches in designing policy measures that address not only material welfare but also psychological resilience in times of economic turmoil.

Keywords: COVID-19; decision-making

Introduction

The outbreak of the COVID-19 pandemic in early 2020 marked a turning point in modern socio-economic history. Beyond the immense toll on global health systems and labor markets, the pandemic introduced a profound and persistent sense of uncertainty into everyday life. Individuals across socioeconomic strata were forced to make high-stakes financial decisions, such as whether to save or spend, invest or withdraw, relocate or remain in place, under conditions of acute ambiguity and rapidly changing information. In this context, characterized by both objective risk and subjective uncertainty, became a testing ground for theories of economic behavior under psychological distress.

Economic decision-making has long been understood as a process not solely determined by rational evaluations of cost and benefit but also shaped by cognitive limitations and emotional states (Kahneman & Tversky, 1979; Loewenstein et al., 2001). The COVID-19 crisis brought this reality into sharp focus. People found themselves navigating unprecedented disruptions to income streams, employment security, and social routines, all of which undermined their perceived control over the future, a core determinant of psychological well-being and economic behavior. Emerging research has begun to document how these stressors triggered mood disturbances such as anxiety, helplessness, and depressive symptoms, which in turn skewed risk perception and temporal valuation (Peters et al., 2006; Van Bavel et al., 2020).

In particular, the interplay between uncertainty and low mood emerged as a crucial determinant of economic behavior during the pandemic. Uncertainty is not merely an economic condition but a psychological state that can impair executive functioning, increase sensitivity to potential losses, and induce a conservative shift in decision-making strategies (Hertwig et al., 2019). When compounded by emotional factors such as sadness or despondency, common responses to social isolation and financial insecurity, the result may be a significant deviation from normative economic behavior. Individuals may either become excessively risk-averse, opting for inaction or overly conservative

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choices, or exhibit impulsive decision patterns, driven by short-term emotional relief rather than long-term planning.

Furthermore, evidence from recent behavioral studies indicates that priming individuals with pandemic-related cues alters their future-oriented economic judgments. Subtle emotional and contextual influences, such as reminders of instability or personal vulnerability, can significantly influence how individuals evaluate delayed rewards, the value of money over time, and the desirability of uncertain outcomes. These shifts highlight the extent to which economic behavior during crises is susceptible to non-rational, affect-driven dynamics, a topic of increasing relevance for both economists and policymakers.

In this paper, we explore how the COVID-19 pandemic affected individual-level economic behavior, with a specific focus on the psychological mechanisms linking uncertainty, mood, and decision-making. Drawing upon empirical literature from behavioral economics and psychological science, we aim to provide an integrative account of how individuals respond economically to crises under emotional distress. In doing so, we also consider the implications of these findings for future economic shocks, arguing that effective policy design must incorporate not only material but also affective and cognitive dimensions of economic behavior.

Literature Review

Understanding the economic behavior of individuals during crises requires a multidisciplinary approach, drawing on behavioral economics, cognitive psychology, and decision theory. The COVID-19 pandemic created a rare opportunity to observe how people make financial decisions in real time under conditions of heightened uncertainty, emotional distress, and social disruption. This section reviews the relevant theoretical and empirical literature concerning the effects of uncertainty and mood on economic decision-making, with particular attention to the dynamics introduced by the pandemic context.

1. Decision-Making Under Uncertainty

Classical economic theory has traditionally assumed that individuals make rational choices aimed at utility maximization under conditions of risk (Von Neumann & Morgenstern, 1944). However, modern behavioral economics has challenged this notion, showing that individuals often deviate from rational models, especially under uncertainty, where probabilities are unknown or ambiguous (Ellsberg, 1961). The concept of ambiguity aversion, the tendency to avoid options with unknown probabilities, has been shown to increase during crises, when individuals are overwhelmed by the complexity and unpredictability of their environment (Halevy, 2007).

During the COVID-19 pandemic, uncertainty permeated both health and economic domains. Studies show that individuals who perceived the future as unpredictable tended to adopt more conservative financial behaviors, such as reduced spending, increased saving, and reluctance to invest (Gallo et al., 2022). These behaviors reflect a broader pattern of precautionary responses to uncertainty, often driven more by psychological distress than by objective risk assessments.

2. The Role of Mood and Affect in Economic Behavior

Emotions are now widely recognized as integral to economic decision-making. Low mood, defined by symptoms of sadness, anhedonia, and hopelessness, can significantly distort cognitive evaluations and preferences (Loewenstein & Lerner, 2003). In particular, negative affect tends to increase loss aversion, shorten temporal horizons, and reduce tolerance for ambiguity (Lerner et al., 2015).

Empirical evidence suggests that depressive symptoms and anxiety, both of which increased during the pandemic, are associated with pessimistic future expectations and reduced willingness to engage in long-term planning (Kimhi et al., 2020). These emotional states can also impair the ability to update beliefs rationally, leading to decision inertia or excessive sensitivity to recent losses.

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The pandemic's emotional toll was further amplified by social isolation and media exposure, which reinforced negative affect and heightened the salience of potential losses. In such contexts, people often rely more heavily on heuristics, mental shortcuts that can lead to systematic biases (Tversky & Kahneman, 1974). These include the availability heuristic, where emotionally charged events (e.g., job loss, illness) become cognitively dominant, influencing perceptions of likelihood and risk.

3. Pandemic Priming and Future Valuation

Recent behavioral experiments have demonstrated that exposure to pandemic-related cues can significantly alter individuals' economic preferences. For example, priming individuals with reminders of pandemic hardships, such as lockdowns or economic instability, has been shown to increase temporal discounting, whereby individuals disproportionately prefer smaller, immediate rewards over larger, delayed ones (Bayer et al., 2024). This phenomenon suggests that crisis-related emotional contexts can shift intertemporal preferences in ways that are not accounted for in standard economic models.

Moreover, the way individuals cognitively process economic uncertainty may itself be shaped by underlying socio-economic and personal characteristics, which influence vulnerability to psychological distress. As shown in recent research, personal factors such as income level, social support, and legal status can condition the psychological impact of crisis environments (Solomon & Bayer, 2023). Rather than assuming that depressive symptoms lead directly to distorted economic choices, it may be more accurate to view these mental health outcomes as partially determined by structural and individual factors, which concurrently affect both psychological well-being and financial behavior. This integrated view underscores the role of inequality and subjective exposure in modulating how individuals interpret and respond to economic risks.

4. Long-Term Socioeconomic and Psychological Implications

The interaction between economic stress and mental health creates feedback loops with long-term implications. Prolonged financial insecurity can lead to chronic psychological distress, which in turn impairs economic functioning, reducing productivity, employability, and investment in education or skill development (Haushofer & Fehr, 2014). These dynamics are particularly pronounced in vulnerable populations, for whom the pandemic exacerbated preexisting inequalities.

Understanding this interplay is vital for policy. Traditional economic models may underestimate the real-world costs of crises if they fail to account for the cognitive and affective dimensions of financial decision-making. A more holistic model must integrate insights from psychology to accurately capture how individuals respond to uncertainty and adversity.

Findings and Discussion

The body of research emerging in the wake of the COVID-19 pandemic reveals a consistent and multifaceted pattern: individuals faced with heightened uncertainty and deteriorating mood states altered their financial behaviors in ways that deviate from standard economic predictions. These behavioral shifts reflect a complex interplay between cognitive, emotional, and environmental factors, which collectively shaped decision-making during the crisis.

One key finding concerns the pervasive effect of uncertainty on financial behavior. Unlike measurable risk, uncertainty during the pandemic stemmed from unknown timeframes, inconsistent public health policies, and volatile labor markets. Such ambiguity impaired individuals' ability to form reliable expectations, pushing many toward more conservative financial strategies. For example, widespread reductions in discretionary spending and increased demand for liquid assets,despite historically low interest rates, suggest a psychological shift toward precaution rather than optimization. These patterns align with earlier behavioral models predicting heightened

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ambiguity aversion in times of crisis (Halevy, 2007), and were further intensified by emotional responses to instability.

Mood disturbances served as a second, potent driver of behavioral deviation. Affective states such as anxiety and depression are known to impact risk perception, reduce tolerance for ambiguity, and narrow temporal focus. During the pandemic, the global rise in depressive symptoms created a population-wide psychological context in which future-oriented financial planning became more difficult and less appealing. Individuals suffering from low mood were less likely to invest in education, long-term assets, or retirement savings, and more likely to seek short-term relief, whether through immediate consumption, avoidance of decision-making, or withdrawal from economic engagement altogether.

Importantly, recent studies suggest that even subtle emotional priming, such as being reminded of pandemic-related suffering, was sufficient to reduce future valuations and increase temporal discounting (Bayer et al., 2024). This indicates that the psychological environment itself, not just concrete financial conditions, played a pivotal role in shaping behavior. Such findings challenge the neoclassical assumption of stable, context-independent preferences, and support a more dynamic view of decision-making that is contingent on affective and cognitive context.

Moreover, economic decisions during the pandemic were filtered through shifting perceptions of personal agency. The perceived loss of control, fueled by both objective constraints and subjective helplessness, led individuals to disengage from proactive financial behavior. Studies in the psychology of learned helplessness suggest that when individuals feel unable to influence outcomes, they become passive, even in situations where action is possible (Maier & Seligman, 2016). This phenomenon was mirrored in pandemic-era behavior, with many forgoing opportunities for reskilling, job search, or entrepreneurial activity despite available support programs.

The findings also illuminate how cognitive biases, under emotional duress, can create persistent suboptimal behaviors. For instance, the availability heuristic caused people to overweigh anecdotal evidence of economic collapse, leading to overestimation of personal financial risk. Meanwhile, status quo bias, exacerbated by decision fatigue, led individuals to maintain existing consumption patterns or defer financial choices, even when adaptation might have been rational. These tendencies were not simply irrational but psychologically adaptive under the strain of uncertainty and emotional overload.

The broader implications of these findings extend beyond the immediate context of COVID-19. They point to the need for economic models and public policy frameworks that integrate emotional and cognitive dimensions of behavior. For example, interventions aimed at restoring a sense of agency, such as simplified access to financial planning tools, empathetic communication from institutions, and targeted mental health support, may be just as critical as direct fiscal support in times of crisis. Moreover, recognizing that emotional states influence economic judgment calls for more nuanced timing and framing of policy measures, especially when aiming to stimulate demand or encourage long-term investment.

In sum, the pandemic has revealed that financial decision-making is not merely a matter of rational calculation but is deeply affected by psychological states. Economic behavior under stress is shaped as much by how people feel and perceive the world as by the resources they hold or the incentives they face. Future research and policymaking must take seriously this behavioral fragility if they are to foster resilience in the face of ongoing and future global disruptions.

Conclusions

The COVID-19 pandemic exposed and intensified the psychological dimensions of economic behavior, underscoring the profound impact of uncertainty and mood on individual decision-making. While economic models often assume rationality and stability in preferences, the realities of the crisis revealed a population grappling with emotional distress, impaired foresight, and shifting risk perceptions. These factors produced a cascade of behavioral responses, ranging from increased

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saving and reduced consumption to impulsive financial choices and widespread economic disengagement.

This paper has shown that decision-making during the pandemic cannot be fully understood without accounting for the affective and cognitive mechanisms that underlie human judgment. Emotional states such as anxiety and depression not only cloud individuals' outlook on the future but also shape how they value time, assess risk, and exert control over their financial lives. The literature reviewed suggests that even mild psychological cues related to crisis conditions can distort economic preferences, making individuals less forward-looking and more susceptible to behavioral biases.

From a policy perspective, these insights demand a more psychologically informed economic framework, one that acknowledges how emotional volatility interacts with financial vulnerability. Responses to future crises must therefore include not only macroeconomic stabilization tools, but also strategies that bolster individual psychological resilience and decision-making capacity. These may involve integrating behavioral nudges, mental health interventions, and adaptive communication strategies to reduce ambiguity, restore agency, and support more rational financial behaviors during periods of stress.

The lessons from the COVID-19 pandemic serve as a clarion call for economists, psychologists, and policymakers alike: in times of profound disruption, understanding the human mind is as essential as understanding the market. Economic stability depends not only on fiscal indicators but also on emotional equilibrium. In the face of uncertainty, both must be addressed in tandem.

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