

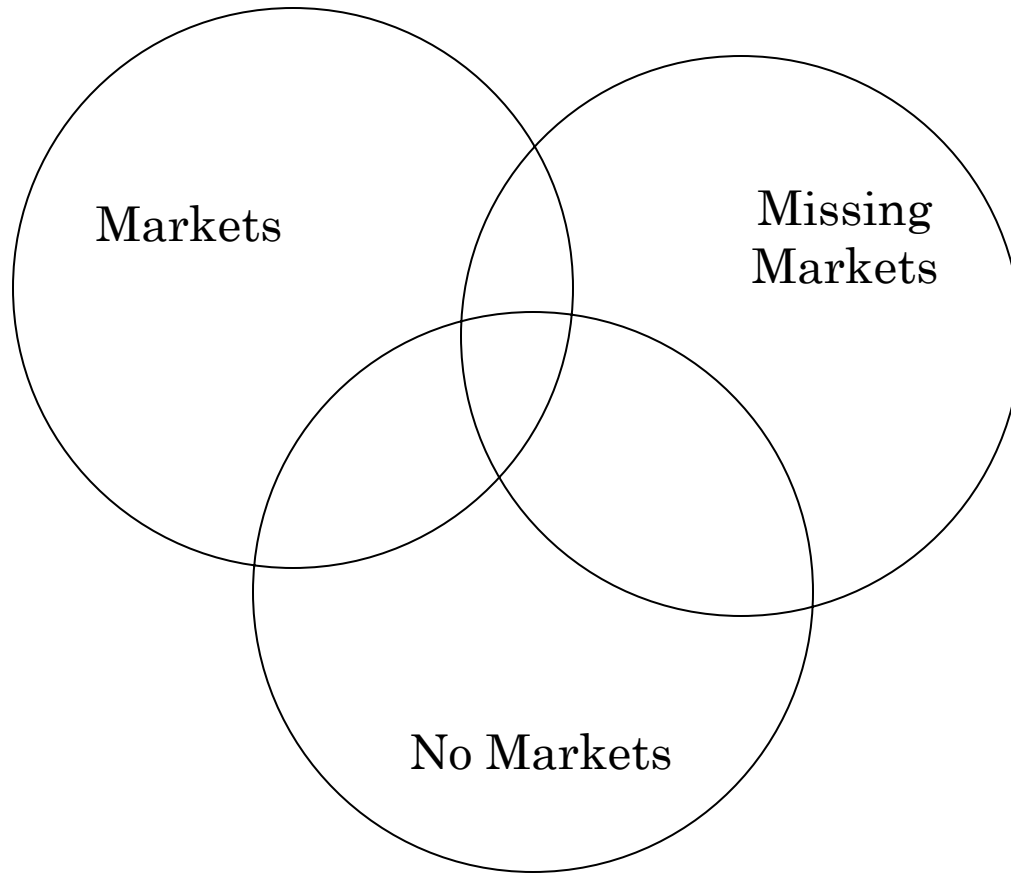
Behavioral Economics & Preference Elicitation: 2 Cheers & 6 Nagging Questions

New Ideas for Risk Regulation
SRA/RFF

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June 2009

- Can behavioral economics help us better understand the \$-values people assign to risk regulation?
- Yes
 - Old wine in new bottles
 - New eyes on old concerns

View on preference elicitation



Behavioral Economics: Popular science

- Nudge: Improving Decisions About Health, Wealth, and Happiness #72
- Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism #419
- Predictably Irrational: The Hidden Forces That Shape Our Decisions #340
- Sway: The Irresistible Pull of Irrational Behavior #6,224
- The Logic of Life: The Rational Economics of an Irrational World #12,839

- Freakonomics #234
- The Invisible Hook: The Hidden Economics of Pirates #9,394
- Environmental Economics in theory and practice #82,834

Framing behavioral economics:

- Bounded rationality
- Bounded willpower
- Bounded self-interest

Cheer #1: Social preference

- Altruism & Fairness
- Social norms
- Social approval
- Social isolation
- Social institutions
- Social punishment

Cheer #2: Context dependence

- Context dependent preferences
 - State dependent preference
 - External versus internal contexts
- Context dependent beliefs
- Context dependent demand
- Context dependent cost-benefit analysis

My Qualm

- Baseline redefinition into context dependence:
- Upper—Rational (*Homo economicus*)
- Lower—Random (*Homo clueless*)

- New Upper—Reasonable (*Homo contexo*)

Baseline & Aversion

- Risk aversion

Baseline & Aversion

- Risk aversion
- Loss aversion

Baseline & Aversion

- Risk aversion
- Loss aversion
- Myopic loss aversion
- Ambiguity aversion
- Inequality aversion
- Lying aversion
- Guilt aversion
- Regret aversion
- Disappointment aversion
- Stress aversion
- Extremeness aversion
- Delay aversion
- Recession aversion
- Innovation aversion
- And so on...

What aversion to add to baseline?

- Baseline of reasonable behavior?
- Judge improvements toward the goal?
- Is context dependence is context dependent?

Behavioral economics can expand how we think about regulation

	Bounded Rationality	Bounded Willpower	Bounded Self-interest
What is the failure?			
What is at risk?			
Is there a conflict?			
Can we cooperate?			
How can we control incentives?			
How do we value our efforts?	X	X	X
To what ends prosperity?			

6 Nagging questions for preference elicitation

1. What exactly are the axioms of hypothetical behavior?
2. What is the association between hypothetical and actual behavior, if any?
3. What is the relationship between market experience and hypothetical-actual behavior?
4. Should we use market experience to remove anomalous behavior in preference elicitation?
5. How does preference elicitation fit into the bigger picture of coordination games?
6. At what point do we stop monetizing preferences when the good is unfamiliar, unknown, or overwhelming?

Nagging questions

1. What exactly are the axioms of hypothetical behavior?
 - Demand theory—real behavior in markets
 - Consequential—does the person think his or her value might have an effect
 - Probability of gain...

2. What is the association between hypothetical and actual behavior, if any?
 - Ex ante manipulation – Cheap Talk - Oath
 - Ex post calibration – CVM-X

Nagging questions

3. What is the relationship between market experience and hypothetical-actual behavior?
 - Expectations of exchange
 - Social isolation
 - Preferences—Fixed or Fungible ?

4. Should we use market experience to remove anomalous behavior in preference elicitation?
 - Rationality spillovers
 - Rationality crossovers
 - Sugden & incoherence

Nagging questions

5. How does preference elicitation fit into the bigger picture of coordination games?
 - Policy as a classic Schelling coordination game
 - Preference interdependence

6. At what point do we stop monetizing preferences when the good is unfamiliar, unknown, or overwhelming?
 - Virtual reality valuation—framing to the extreme?
 - \$3.54 per trout fishing trip in the year 2050—valid?

Constructive

- Past
 - Survey design
 - Biases
- Present
 - Framing
 - Institutions
- Future
 - Intervals
 - Oaths

Adoption page



A propos du World Wide Fund for Nature : Le WWF est une organisation non gouvernementale internationale de protection de la nature et de l'environnement, fortement impliquée dans le développement durable. Cette association, ayant son siège à Gland en Suisse, compte plus de 4,7 millions de membres à travers le monde et dispose d'un réseau opérationnel dans 96 pays. Cette organisation prêche à pour buts la protection de la faune, de ses habitats, de la nature en général, et pour ce faire récolte des fonds pour des actions ponctuelles. **Ses activités principales sont la surveillance de l'application de la réglementation internationale, la restauration d'espaces naturels dégradés et la formation.**

Aidez le World Wide Fund for Nature (WWF) en adoptant un dauphin

Si vous adoptez ce dauphin, vous recevrez un certificat d'adoption officiel du WWF confirmant votre adoption ainsi qu'une photo de l'animal:



Chaque adoption est symbolique et votre don sera utilisé pour lutter contre la disparition des habitats et le braconnage des espèces menacées ainsi que pour soutenir les efforts de protection de l'environnement du WWF.

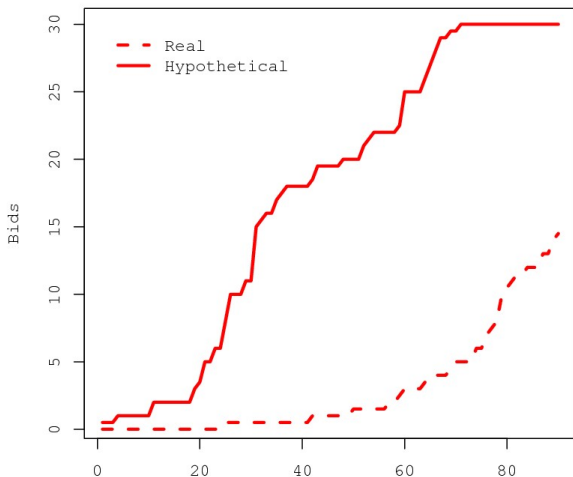
Choisissez votre proposition en glissant le curseur et validez votre choix en appuyant sur OK:

0 10

Vous proposez : 4 Euro(s)

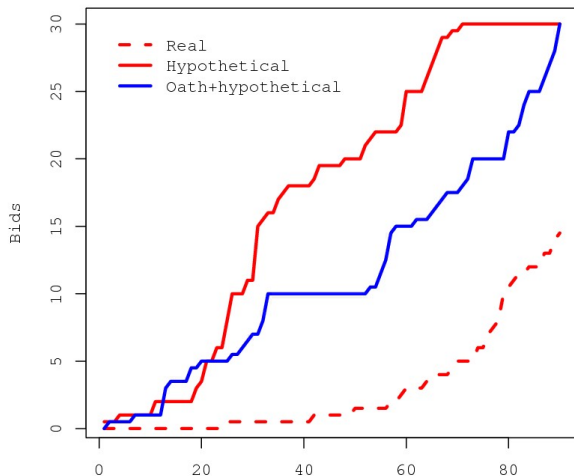
OK

Preliminary results : bids' cdf



- Treatment : Quiz + Vickrey auction on donation to the WWF.
 - Clear evidence of Hypothetical Bias \Leftrightarrow induced by moral values ?

Preliminary results : bids' cdf



- Treatment : Oath + Quiz + Vickrey auction on donation.
 - Rather mixed : oath do discipline bidding, but not enough. . .