Excerpt from the 1997-98 Behavioral Economics Working Group report to the Center for Advanced Study in the Behavioral Sciences (submitted 8 July 1998)

[Editor's note: Links to published works inserted by CASBS]

A number of collaborations between group members were initiated during the year. Rabin and Loewenstein completed a paper (in collaboration with Daniel Read) on "Choice Bracketing" (forthcoming, Journal of Risk and Uncertainty) which argues that a number of decision sub-optimalities result from people adopting an overly narrow decision frame. Rabin and Loewenstein (with Ted O'Donoghue) wrote a paper that proposed a theoretical model of a "projection bias" that can explain the diverse results obtained from numerous studies that have documented systematic biases in people's predictions of their own future preferences. Prelec, Loewenstein and Roberto Weber wrote a paper on hedonic aspects of retirement (which benefited from a presentation by CASBS Fellow Paul Baltes) for a Brookings Institution conference that took place down the hill at the NBER. Prelec and Loewenstein also wrote a paper on predicting preferences and finally completed an in-progress work on mental accounting which was the lead article in Marketing Science. Prelec and Loewenstein also initiated several joint research projects with Dan Ariely during his one-month residency at the Center.

In addition to these group interactions and projects, each of us individually had extremely productive years.

Camerer has written 300 pages of his manuscript on "Experiments in Strategic Interaction", approximately half of its projected length. He was also able to finish a number of papers, including two papers which reviewed recent research and suggested new research directions in behavioral economics, which benefitted enormously from day-to-day contact with other members of the group.

Loewenstein completed a number of in-progress research papers on variety seeking, memory for pain, history of ownership effects, and review papers on "hedonic adaptation" -- what types of conditions people can get used to -- (with Shane Frederick), on when and why people mispredict their own future feelings and preferences (with David Schkade), preference reversals (with Chris Hsee, Sally Blount and Max Bazerman), and risk perception (with Elke Weber, Chris Hsee and Ned Welch). The risk perception paper, which was begun prior to Loewenstein's arrival at the center, was transformed as a result of interactions with fear/anxiety researchers at the Center: Mark Bouton, David Barlow, and Susan Mineka. Loewenstein also wrote a critique of experimental methods used by economists, and a paper on mountaineering titled "Because it is There: The Challenge of Mountaineering ... for Decision Theory."

Rabin spent his time completing already-begun projects and starting new projects all of which attempt to formalize psychological phenomena in a form that can be incorporated into economic theory. In October, he completed a draft of "Risk Aversion, Diminishing Marginal Utility, and Expected Utility theory: A Calibration Theorem" that argues that economists' way of modeling risk aversion--expected-utility theory--is woefully miscalibrated. (This project relates to the research of the other behavioral economists visiting the Center this year, and there was a lot of cross-fertilization on several projects on this topic.) Matthew also continued with his research on "present-biased preferences," with Ted
O'Donoghue of Cornell University. This research attempts to draw out the theoretical economic implications of self-control problems, modeled as time-inconsistent discounting in which people put unusually high value on their immediate gratification. While Matthew was at the Center, he and Ted revised 4 papers on the topic they had begun earlier—getting their paper "Doing it Now or Later" accepted for publication in the American Economic Review, their paper "The Economics of Immediate Gratification" in the Journal of Behavioral Decision Making, and their paper "Addiction and Self Control" likely to published in a book on addiction. They have re-submitted their paper "Incentives for Procrastinators" to the Quarterly Journal of Economics. Matthew also began three new papers with Ted on "Choice and Procrastination," "Procrastination in Preparing for Retirement," and "Addiction and Present-biased Preferences," drafts of all of which are expected by September 1998.

Prelec, in addition to his joint research with other Center fellows, completed a paper on the probability weighting function which was published as the lead article in Econometrica. He also produced a shortened version of the paper for a decision making volume edited by Daniel Kahneman. He completed a paper on differences in consumer spending with credit cards and cash. And, he continued to pursue his research on "self-signaling," which he presented to Center Fellows in a Wednesday evening seminar.

Thaler, in his half-year at the Center, put the finishing touches on a paper (with Christine Jolls and Cass Sunstein) that is titled "A Behavioral Approach to Law and Economics" that was published by Stanford Law Review, and also completed a paper titled "Mental Accounting Matters" that will appear in a decision making volume edited by Daniel Kahneman. In addition, he wrote a paper (with Shlomo Benartzi) on the "1/n heuristic" in mutual fund investing.