The Construction of Preference

Do we really know what we want? Or must we sometimes construct our preferences on the spot, using whatever cues are available – even when these cues lead us astray? One of the main themes that has emerged from behavioral decision research during the past three decades is the view that people's preferences are often constructed in the process of elicitation. This idea is derived from studies demonstrating that normatively equivalent methods of elicitation (e.g., choice and pricing) give rise to systematically different responses. These preference reversals violate the principle of procedure invariance that is fundamental to all theories of rational choice. If different elicitation procedures produce different orderings of options, how can preferences be defined and in what sense do they exist? This book shows not only the historical roots of preference construction but also the blossoming of the concept within psychology, law, marketing, philosophy, environmental policy, and economics. Decision making is now understood to be a highly contingent form of information processing, sensitive to task complexity, time pressure, response mode, framing, reference points, and other contextual factors.

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CAMBRIDGE
UNIVERSITY PRESS

CAMBRIDGE UNIVERSIGY PRESS
Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press
32 Avenue of the Americas, New York, NY 10013-2473, USA

www.cambridge.org
Information on this title: www.cambridge.org/9780521834285

First published 2006

Printed in the United States of America

A catalog record for this publication is available from the British Library.

Library of Congress Cataloging in Publication Data

The construction of preference / edited by Sarah Lichtenstein, Paul Slovic.
p. cm.
Includes bibliographical references and index.
ISBN-13: 978-0-521-83428-5 (hardback)
ISBN-10: 0-521-83428-7 (hardback)
ISBN-13: 978-0-521-54220-3 (pbk.)
ISBN-10: 0-521-54220-0 (pbk.)
1. Choice (Psychology) I. Lichtenstein, Sarah, 1933– II. Slovic, Paul, 1938– III. Title.
BF611.C65 2006
153.8′3 – dc22 2005035966

ISBN-13 978-0-521-83428-5 hardback
ISBN-10 0-521-83428-7 hardback

ISBN-13 978-0-521-54220-3 paperback
ISBN-10 0-521-54220-0 paperback

We dedicate this book to
our grandchildren:

James Loving Lichtenstein
Lela Loving Lichtenstein
Jacinto Slovic
Spencer Slovic
Cameron Slovic
Oblio Mathai

The discussion of the meaning of preference and the status of value may be illuminated by the well-known exchange among three baseball umpires. "I call them as I see them," said the first. "I call them as they are," said the second. The third disagreed, "They ain't nothing till I call them." Analogously, we can describe three different views regarding the nature of values. First, values exist – like body temperature – and people perceive and report them as best they can, possibly with bias (I call them as I see them). Second, people know their values and preferences directly – as they know the multiplication table (I call them as they are). Third, values or preferences are commonly constructed in the process of elicitation (they ain't nothing till I call them). The research reviewed in this article is most compatible with the third view of preference as a constructive, context-dependent process. (Tversky & Thaler, 1990, p. 210)

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Preface

Cass R. Sunstein

According to the most prominent view in contemporary social science, human beings "have" preferences, and their choices are a product of those preferences. If people are going to select an ice cream flavor, or a television set, or a political candidate, they will consult a kind of internal preference menu, and their choices will result from that consultation. This approach to human behavior dominates economics; it also plays a large role in many other fields, including political science, law, and sociology.

But are people's preferences really elicited, rather than constructed, by social situations? This is an empirical question. Over the last decades, a great deal of progress has been made in answering it. Sometimes people prefer A to B *and* B to A, depending on how the options are framed. If people are told, "Of those who undergo this medical procedure, 90% are still alive after 5 years," they are far more likely to agree to the procedure than if they are told, "Of those who undergo this procedure, 10% are dead after 5 years." Framing matters for ordinary consumer choices as well as for unusual medical decisions. Most consumers might prefer a small television to a medium-sized one when choosing among the two, but if a large television is added to the set of options, many consumers will favor the medium-sized one over the small one. The same point applies to jury determinations. Other things being equal, a jury is far more likely to convict a defendant on a charge if that charge can be characterized as falling in the middle of a set of possibilities.

Or consider questions from the important domain of regulatory policy: Do ordinary people "have" preferences about their own willingness to pay to eliminate a mortality risk of 1/100,000 or to save members of an endangered species? It turns out that people's decisions are greatly affected by amounts that are initially mentioned to them – so much so as to make it possible for analysts to "construct" an extraordinarily wide range of possible amounts.

According to standard economic theory, default rules shouldn't much matter to what people will do, at least if they can easily contract around those rules; people who "prefer" to contract around default rules will do exactly that. But growing evidence suggests that default rules, both private and public, help to construct people's preferences. Suppose that an employer automatically assumes that employees want to devote a certain percentage of their wages to savings in a retirement plan, while allowing employees to "opt out" of the plan

if they do so explicitly. If the employer so assumes, there will be far more participation in retirement plans than if the employer assumes that employees do not want to participate in that plan unless they say otherwise.

The point is immensely important. If default rules help to construct preferences, then the standard analysis of such rules, in both economics and law, turns out to be badly mistaken.

All of these examples suggest that if their goal is to predict human behavior, analysts will blunder if they assume that people have preferences that predate framing, default rules, and social interactions. Sometimes preferences are surprisingly labile. This point also unsettles the widely held view that the role of private and public institutions is to "respect" or "satisfy" preferences. If preferences are constructed, then institutions cannot refer to acontextual preferences at all.

To be sure, there are limits to the process of construction. Some televisions just won't sell; most of the time, people are unlikely to want 80% of their wages to go into savings. It would be an overstatement to say of preferences, as Gertrude Stein said of Oakland, that "there is no there there." But frequently what is there is far less fixed, and far more malleable, than conventional theory predicts.

This book collects decades of work on central issues involving the construction of preferences. It includes the seminal papers on that topic; it also offers newer work whose implications have yet to be fully unpacked. The result is a fundamental rethinking of central issues in social science, with intriguing lessons for many questions about human behavior and about the role of human institutions in helping to produce it.

Acknowledgments

We are indebted to many people who, over the course of almost half a century, contributed to the construction of preference and the construction of this book. Ward Edwards built the foundation for the field of Behavioral Decision Theory and introduced us to this field and to each other. Paul Hoffman, founding director of the Oregon Research Institute, provided a stimulating research environment in which to conduct our early experiments on preference reversals. Amos Tversky and Danny Kahneman encouraged our work and contributed to it in many important ways, as did Baruch Fischhoff, who helped us think more broadly about "labile values."

We are particularly grateful to the many fine researchers who, with stunning ingenuity, transformed the study of preference reversals into the study of constructed preferences. A sampling of their contributions is included in this book.

We also thank the economists who took our early work seriously enough to criticize it (and sometimes even to attack it). Their skeptical views motivated much of the subsequent psychological research and made it better. The challenges posed by David Grether and Charles Plott were particularly important in this regard.

In developing our ideas on preference reversals and preference construction, we have been supported intellectually and socially by our colleagues at Oregon Research Institute (Lew Goldberg, Leonard Rorer, Robyn Dawes, and Gordon Bechtel) and Decision Research (Robin Gregory, Ellen Peters, Melissa Finucane, Don MacGregor, Terre Satterfield, Robert Mauro, C. K. Mertz, Jim Flynn, and Tony Leiserowitz). Administrative support for this book has been provided by Toni Daniels and Kay Phillips. Special thanks go to Ellen Peters, Robin Gregory, John Payne, and Chris Starmer for their advice on our introductory chapter and to the National Science Foundation, whose Decision Making, Risk, and Management Science Program has provided essential funding for much of the research on preference construction by us and others.[1]

[1] Most recently, support for work on this book has come from the National Science Foundation under Grant Nos. 0112158 and 0241313. Any opinions, findings, and conclusions or recommendations expressed in this material are those of the authors and do not necessarily reflect the views of the National Science Foundation.

Finally, we were sustained in the daunting task of acquiring and assembling the 38 chapters of this book by the steady competence and enthusiasm of Leisha Wharfield, ably assisted by Austin Kaiser. We thank them. We also thank Peter Katsirubas of Techbooks for his help and his patience in the final stages of book preparation.

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May 2006