

Session VI

Behavioral Economics and Welfare Economics

John Doris, Julia Haas, and Dan Benjamin

Discussant: Ben Lockwood

Jon Doris

Jon Doris introduces the work presented by Julia Haas. Psychology is a descriptive endeavor that attempts to explain what is, and philosophy is a perspective endeavor that attempts to explain what ought to be. It is widely acknowledged that there is an inferential barrier between what “is” and “ought.” Doris tries to persuade the audience that some of the “fun facts” are those deduced by psychologists.

One animating thought for this research is that small things matter for what we [humans] do, and silly things matter as well. For example, people vote for a candidate merely because the candidate is listed first on the ballot. In general, people are moved by things that they wouldn't necessary want to admit were reasons. Behavior is context-dependent and fluid, especially compared to valid moral principles.

Moral Psychonomics

Julia Haas introduces a neuroeconomic model of moral cognition based on neuropsychology that attempts to understand how individuals make economic choices. She argues that the brain acts as an internal value function that assigns cardinal subjective values to various choices and adds everything up so that individuals make internally consistent choices. There is evidence from cognitive studies that brains have a weaker neuro-signal when the agent doesn't value a good very much. We can think of this signal as an independent measure of subjective value. Yet the subjective value of good is fluid, as it can change over time and be context-dependent.

Haas posits that we value principles as we do goods—as freestanding entities that we can compare or trade off. She therefore predicts that there is a positive correlation between the value of moral principles and bolded regions in the cortex. And, as with nonnormative economic choice, we should expect moral choices to be fluid as well. Finally, she argues that if we can better understand the mechanism for this moral encoding, we will be better able to predict how and when humans will waiver on moral issues.

Reconsidering Risk Aversion

Dan Benjamin motivates the project with the long-standing concern that Americans may not be investing appropriately for retirement. This paper attempts a new way to measure risk aversion that focuses on choices that are inconsistent with expected utility axioms. The procedure first elicits choices over risky lotteries and then asks people to reconsider their choices and determine if they want to revise them. The key assumption is that the reconsidered choice is the one that more closely reflects true preferences.

Benjamin and his coauthors use Cornell students for both of their data samples. Students see a basic “tree” explaining the choices and risk levels associated with those choices, where frames in their module are ordered so that adjacent frames are equivalent from the perspective of Expected Utility axioms. Students are then asked about inconsistent choices (the authors are careful to include placebo inconsistencies) and why they chose to reconsider or keep their initial response. The authors did not see many revisions with placebo inconsistencies but did see most mistakes involving intransitivity revised after reconsideration. The one exception is with Irrelevance of Counterfactual Choices. Estimates of risk aversion using the second, reconsidered choices achieve near convergence; and it is an open question whether more reconsideration would move estimates even closer to convergence.

Discussion

Ben Lockwood notes that all three papers employ a common framework: We observe people making choice x versus y in different contexts A and B . According to some reasonable decision principle, the features of A and B should not be relevant to the two choices of x versus y , and yet different choices are made.

Lockwood asks when is it the case that such an inconsistency is valid, and further, when choices made from suspect contexts can be used to estimate true preferences?

Q and A

Tim Scanlon: I don't think that risk aversion is fundamentally what determines retirement behavior. What makes sense for me depends on probabilities and requires sound investment advice. Of course, I might be stupidly risk averse or stupidly risk tolerant.

Answer: Risk aversion is a driver of retirement behavior. Consider that an index fund has a higher expected return but higher risk, so this is clearly a question of risk.

Question: If moral beliefs are encoded into a neuropsychology matrix, there is an important distinction between how seriously morally wrong we hold an action to be and how confident we are in this belief. These are very different issues and can come apart.

For instance, we may be unsure if it is morally wrong to perform a third trimester abortion, but if it were wrong, then surely it would be a serious wrong?

How would the signals of the brain inform us about this distinction?

Julia Haas: This model will help us to separate the two issues. At this point we can measure only the strength of the feeling and don't yet have a way to pull these two considerations apart.

Question: "Revealing true preferences" is the language you [Benjamin] use. However, another way to think about your procedure is that the frames themselves construct preferences.

To explain, when one solves a difficult math problem, one formulates the solution by working through the problem. Thoughts about the solution don't fundamentally exist ex ante.

Dan Benjamin: Perhaps, then, we are asking what construction process will lead to a stable choice? Maybe a stable choice doesn't exist in a prior sense, but we have to aim at some stable construct.