

## Camp Outline & More Perspectives

- I. Logistics, Etc. (with repetition of both David and documents sent)
  - A. Camp Etiquette
  - B. Schedule
  - C. Office Hours
  - D. Questions?
- II. Topics Covered and Uncovered
- III. Orientation of Camp/Field

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## Camp Etiquette

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  - (If you're not an idiot dog lover.)

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- E.g., whether must be on time to sessions?



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- “Non-psychological bounded rationality” .↔

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  - My complaint: I am very interested in welfare, not just behavior.

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A table we'll return to later:

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  - **“... let him bear in mind that his novel is not a transcript of life, to be judged by its exactitude; but a simplification of some side or point of life, to stand or fall by its significant simplicity.”** - Robert Louis Stevenson (from *A Humble Remonstrance*)

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Before more, a source of inspiration:



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- Old type of non-identification test:

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    - But when used to favor status quo, they are bad science.

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And of course be skeptical of the other type of 8,000% theories:

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And of course be skeptical of the other type of 8,000% theories:

- Vague ones that are all about degrees of freedom →
  - one behavior is observed in a particular situation
  - 80 different behaviors in given context can be “explained”

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- But is much of evidence more like animal trials?
  - Yes, learning something.
  - Very hard to interpret effect sizes!

↪

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  - The best (intentionally) funny sign in the world ...



## More Realistic Preferences

Next few lectures by me: improving assumptions about preferences:

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But first, an aside (without a sense of closure):

↗

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200 meters out back door:

Micro Center Replacement Plans				
Product Price	3 Year Plans		2 Year Plans	
	SKU#	Price	SKU#	Price
\$0 - \$4.99	024604	\$1.99	023366	\$0.75
\$5 - \$9.99	024661	\$2.49	023432	\$0.99
\$10 - \$14.99	024844	\$2.99	023465	\$1.49
\$15 - \$19.99	024901	\$3.99	023689	\$1.99
\$20 - \$24.99	024950	\$4.99	023739	\$2.49
\$25 - \$49.99	025007	\$9.99	024059	\$4.99
\$50 - \$74.99	025056	\$14.99	024125	\$6.99
\$75 - \$99.99	025312	\$19.99	024158	\$9.99
\$100 - \$199.99	025692	\$39.99	024364	\$19.99
\$200 - \$299.99	025742	\$59.99	024372	\$29.99
\$300 - \$399.99	025809	\$89.99	024430	\$49.99
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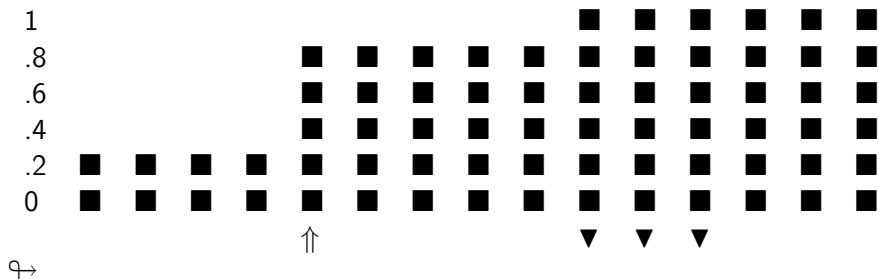
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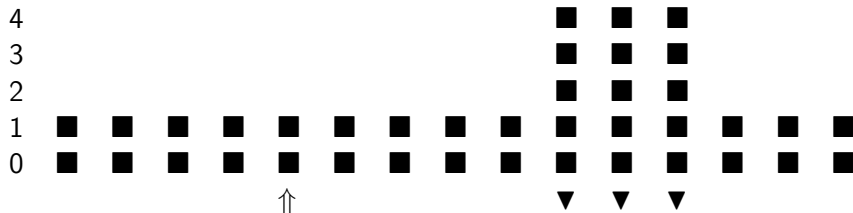
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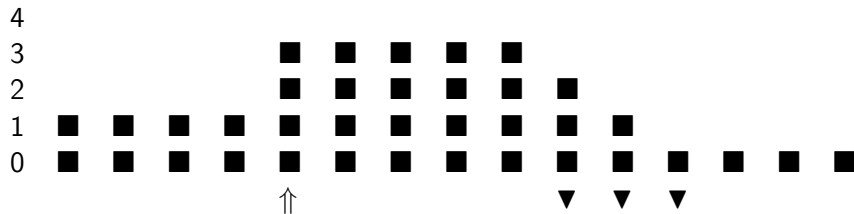


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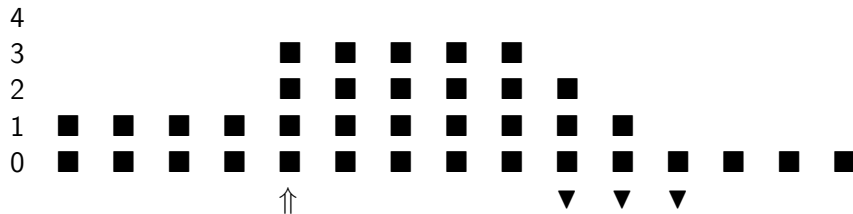
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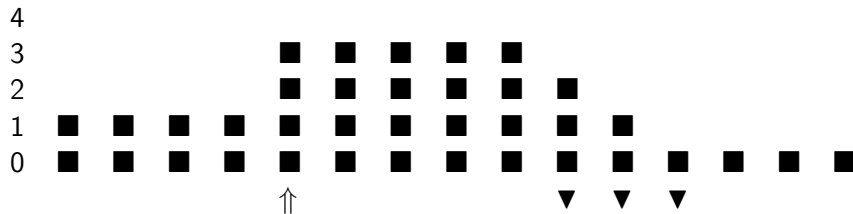
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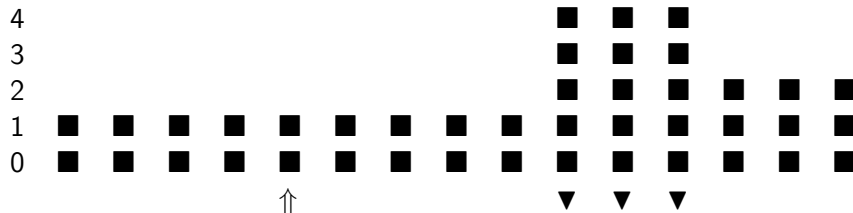
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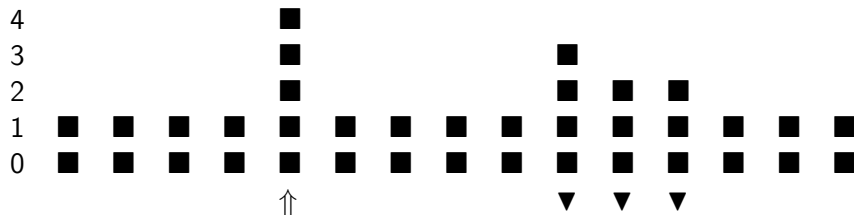


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Aside: Different approaches to investigating b-b preferences:

- Combine assumptions about the psychology, the informational environment, and researchers' methods.

Some approaches:

- 1 "Willful" violations of LIE
- 2 Self-signaling and forgetting
- 3 Altruistic Revealed Preferences
  - 1 How do we manage the utility of others?
  - 2 KR (non-RD!), finally starting to use it as a method in experiments.
- 4 Non-linearity in probabilities, fully-rational/Bayesian
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  - So information aversion is simplest marker of b-b preferences.

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- If good,  $w = 1$ ;
- if bad,  $w = \alpha < 1$ .

**If no work,  $e = 0$ ,  $w = 0$ , and he learns nothing.**

Utility from widget-making:  $u = \bar{p}[1 + \varphi\sqrt{1}] + (1 - \bar{p})[\alpha + \varphi\sqrt{0}] - k$ .

Utility from non-widget-making:  $u = \varphi\sqrt{\bar{p}}$ .

- For what values of  $\bar{p}$ ,  $\varphi$ ,  $\alpha$ ,  $k$ , will Henrik work?

If  $\varphi = 0$  — classical, non-belief-dependent preferences — then

- If  $k$  is low, work for sure.
- more likely to work when  $\bar{p}$  is higher (since  $\alpha < 1$ ).



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- Non-monotonicity in  $\bar{p}$ .



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- Protecting ego, not likely without b-b prefs

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- Aside: Ref points everywhere... including ego utility, etc.

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- $u(c_t; r_t)$ , not  $u(c_t)$ , where  $r_t$  is some reference level.

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- E.g.: Vast majority turn down 50/50 lose \$600, gain \$700 bet
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Reflects big and general fact about human psychology:

- We think in terms of proportions.

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EU/DMU(W) *does* help for large stakes... main story.



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  - Among most intuitive, compelling, important assumptions we make!



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Grand Conceit: Because we (jointly) do two things, Derive reference point from preferences and environment, and derive gain-loss utility from reference points and consumption utility,

- aim at universal formula for constructing reference-dependent preferences from existing (non-reference-dependent) models.



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- But the silence a fundamental barrier in many applications.



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In fact, wrong framing...

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- Include news utility, implications for things like precautionary savings.

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- Example of an exception: sensory experiences, such as changes in brightness and temperature.

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- Answer 1: Most evidence on surprises: status quo = expectations.
  - (rationally or psychologically) expect to maintain the status quo.
  - E.g., owning a mug often connotes to us that we will be in possession of it tomorrow. (this is cheating)
- Answer 2: In fact, often wording obscures things.
  - E.g., wage cuts are not decreases in wealth ... they are (surprise) decreases in the rate of increase of wealth!

# Prospect-Theoryish Stuff

Given preponderance of theory, interpretations, and evidence saying status quo is reference point, *how can we say not the status quo?*

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  - How does an unexpectedly small wage increase feel?



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*Comparison effect:*

- Lowering the low price decreases WTP at high prices—high price feels like a worse loss.

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- Experimental protocol *arguably* induce parties to expect to keep endowment.

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  - Heffetz and List (JEEA), similar experiment, *and others*, reject role of expectations

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  - *Reflects intuitions of PT, but makes very different predictions than status-quo-based PT literally does.*

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  - Not risk-loving in expected "losses" — because in our model sensation of losses arises only from worse-than-expected decreases.



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- In classical model, money only valued for consumption.
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- But not current consumption, which KR (2006, 2007) treat it as.

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- Money is future consumption so unexpected gains and losses of money are news about future consumption.



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- Depending on the context, analysis may be misleading.

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- *Ceteris paribus* — fixing this morning's expectations — obvious correlation with how optimistic you are about the future and how much more optimistic you have become about the future.

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  - Utility: changes in beliefs ... not whether those beliefs rational.

