



**Behavioral Decision Research in Management (BDRM)  
Biennial Meeting - May 31 to June 1, 2002  
Gleacher Center, University of Chicago Graduate School of Business**

Registration Locations

Thursday	6:00 pm-8:00 pm, Wyndham (Lakeshore West, 3 <sup>rd</sup> Floor)
Friday	7:30 am-11:00 am, Room 100 Foyer; 11:00 am-5:00 pm, Room 420
Saturday	7:30 am-5:00 pm, Room 350

Thursday, May 30, 2002

**6:00 pm to 8:00 pm**      **Welcome Reception and Registration, Wyndham (Lakeshore West, 3<sup>rd</sup> Floor)**

Friday, May 31, 2002

<b>7:45 am – 9:00 am</b>	<b>Breakfast (Room 100-Foyer)</b>		
<b>9:00 am – 10:30 am</b>	<b>Plenary Session, <i>C. Sunstein &amp; R. Thaler</i> (Room 100)</b>		
<b>10:30 am - 11:00 am</b>	<b>Coffee Break (Room 100-Foyer)</b>		
<b>11:00 am – 12:30 pm</b>	<b>Paper Session 1</b>		
	<u>Social Decisions I</u>	<u>Individual Decisions I</u>	<u>Consumer Choice I</u>
	1a, Room 300	1b, Room 400	1c, Room 404
	S. Curley	F. Guo	U. Simonsohn
	N. Harvey	C. Kraemer	C. Hsee
	R. Larrick	D. Frisch	K. Wertenbroch
	L. Van Swol	K. Burson	D. Ariely
<b>12:30 pm – 1:30 pm</b>	<b>Lunch (Room 621)</b>		
<b>1:30 pm – 3:00 pm</b>	<b>Paper Session 2</b>		
	<u>Social Decisions II</u>	<u>Individual Decisions II</u>	<u>Consumer Choice II</u>
	2a, Room 300	2b, Room 400	2c, Room 404
	R. Croson	C. Fox	J. Gourville
	U. Gneezy	P. Linville	C. Brown
	M. Handgraaf	D. Koehler	A. Reid
	D. Chakravarti	C. McKenzie	O. Amir
<b>3:00 pm – 3:30 pm</b>	<b>Coffee Break (Room 420)</b>		
<b>3:30 pm – 5:00 pm</b>	<b>Paper Session 3</b>		
	<u>Social Decisions III</u>	<u>Individual Decisions III</u>	<u>Dynamic Decisions</u>
	3a, Room 300	3b, Room 400	3c, Room 404
	D. Budescu	P. Delquie	R. Barkan
	Z. Shapira	L. Brenner	W. Bruine de Bruin
	D. Small	L. Nelson	J. Sterman
	J. Koehler	B. Fasolo	F. Gibson
<b>5:30 – 7:00 pm</b>	<b>Poster Session (Rooms 600, 602, 604)</b>		
<b>7:00 – 9:30 pm</b>	<b>Conference Dinner, Gleacher Center (Room 621) followed by performance by “Baby Wants Candy”, a troupe from Chicago’s Improv Olympics</b>		

## Saturday, June 1, 2002

**7:45 am - 9:00 am**

**Breakfast (Room 350)**

**9:00 am - 10:30 am**

**Paper Session 4**

Multiattribute Decisions

4a, Room 300

G. Fischer

D. Kleinmuntz

M. Willemsen

S. Jeffrey

Loss Aversion

4b\*, Room 308

J. Knetsch

N. Novemsky

D. Schkade

**10:30 am - 11:00 am**

**Coffee Break (Room 350)**

**11:00 am - 12:30 pm**

**Paper Session 5**

Decisions and Time

5a, Room 300

D. Read

K. Diehl

S. Hoeffler

B. Summers

Behavioral Economics

5b, Room 308

C. Camerer

T. Langer

J. Levav

C. Massey

**12:30 am - 1:30 pm**

**Lunch (Room 621)**

**1:30 pm - 3:00 pm**

**Paper Session 6**

Decisions and Regret

6a, Room 300

R. Ratner

T. Connolly

K. Smith

M. Tsiros

Investing Behavior

6b\*, Room 306

B. Barber

A. Scherbina

R. Dhar

M. Weber

Decisions about Time

6c\*, Room 308

F. Leclerc

G. Zauberman

R. Zhou

**3:00 pm - 3:30 pm**

**Coffee Break (Room 350)**

**3:30 pm - 5:00 pm**

**Paper Session 7**

Prior Judgments

7a\*, Room 300

O. Svenson

C. Brown

M. Meloy

K. Carlson

Psychology of Rates

7b\*, Room 306

J. Gourville

P. Raghuram

S. Chandran

Mental Accounting

7c\*, Room 308

J. Nunes

J. Huber

W. Hong

\*: Denotes Symposium

## BDRM 2002 Program Committee

Dan Ariely, *Haas School of Business, UC-Berkeley*

Rachel Croson, *Wharton School of Business, University of Pennsylvania*

Reid Hastie (co-chair), *Chicago Graduate School of Business*

Chris Hsee (co-chair), *Chicago Graduate School of Business*

Leigh Thompson, *Kellogg School of Management, Northwestern University*

Richard Thaler, *Chicago Graduate School of Business*

## Directions to and from Gleacher Center



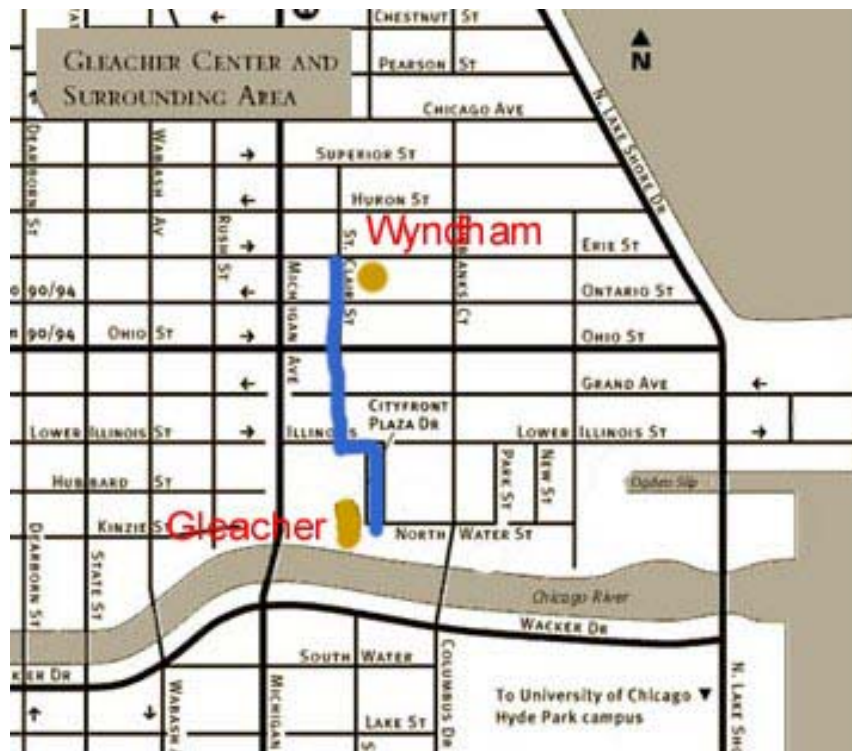
Gleacher Center



Wyndham Hotel

Directions from Gleacher to the Wyndham (approximately 6-8 minutes): As you exit Gleacher, take a left and walk for approximately 100 meters (the NBC Building should be on your right and the Tribune building should be on your left). When you get to Illinois St, take a right and go about 30 meters. You will see a staircase on your right. Take the staircase down. You are now on St. Clair. Go 4 blocks to a modern blue glass building (633 N. St. Clair). It is on the right side of the street.

Directions from the Wyndham to Gleacher (approximately 6 to 8 minutes): Take a left on St. Clair (you will be heading south). Walk 4 blocks to Illinois. You should be on the left side of the street. Take the staircase upward. When you get to the top of the stairs, take a left and walk about 30 meters. Then take a right and walk about 100 meters. Gleacher will be on your right.



## Friday Dinner Entertainment

The conference dinner will be followed by a 45 minute performance by “Baby Wants Candy”.



## *THE MUSICAL!*

Have you ever heard of the improvised television show, *Whose Line Is It Anyway?* After seeing Baby Wants Candy's *The Musical*, we were once told that Baby Wants Candy is a cross between *Whose Line Is It Anyway?* and a *Simpsons* episode. Baby Wants Candy improvises a brand new, smart, irreverent, hilarious musical every show.

This is how it works: based on a single audience suggestion, we create an hour-long, completely improvised musical right before your eyes. Everything is made up on the spot! The moment you see it performed on stage is the same moment we see it performed; you don't know what's going to happen next, and we don't know what's going to happen next. We find it out together, the moment it happens!

### ***A LITTLE ABOUT BABY WANTS CANDY:***

- Baby Wants Candy is the Improv Olympic's First Resident Company
- Baby Wants Candy broke venue box office & attendance records in Scotland's Edinburgh Fringe Festival in 1998 & 2001
- Baby Wants Candy was chosen three times as Mervyn Stutter's Pick of the Fringe, in Edinburgh
- Baby Wants Candy was the proud recipient of the 1999 Spirit of the Fringe Award, in Edinburgh
- Baby Wants Candy Recently celebrated its 6 Year Anniversary!
- Baby Wants Candy is rapidly approaching its 500<sup>th</sup> Completely Improvised Musical
- Baby Wants Candy performs every Friday and Saturday night @ 8:00 @ the Improv Olympic Cabaret

*We Also Take The Improvised Musical On The Road! For information on: Private Shows, Parties, Corporate Events, Workshops, or Any Reason At All, give us a call: 773-383-3345!*

**Plenary Session, 9:00am – 10:30am, Room 100**  
**“Implications of Behavioral Decision Making Research on Public Policy”**  
*Cass Sunstein (University of Chicago School of Law)*  
*Richard Thaler (Center for Decision Research, Chicago GSB)*

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**Paper Session 1a, 11:00am – 12:30pm, Friday, May 31, Room 300**  
**Social Decision Making I: Advice**

**How Do I Know What You Know? Factors Used to Infer Another's Expertise and to Communicate One's Own Expertise**

*Shawn P. Curley\*, Mani R. Subramani & Naren B. Peddibhotla (University of Minnesota)*

Knowledge management in organizations can be understood narrowly in terms of corporate, electronic databases, or more broadly to include the knowledge in the people within and outside the organization to which the organization has access. Since no single individual typically has all the knowledge needed to analyze a particular organizational problem, “source knowledge” assumes importance. At an individual level, *source knowledge* is what I know about what others know (also termed one’s “know-who”). This is an important issue in organizations since identifying what others know is necessary to be able to access this knowledge and capitalize upon it. This presentation reports on a study of the factors that are involved in inferring the expertise that another has that can be leveraged. Conversely, we also look at the other side of this interaction and consider the factors that individuals use to communicate their own expertise to others.

**Judging Risk: Do People Make More Use of Advisors They Say They Trust More?**

*Nigel Harvey (University College London)*

People estimated various risks using advice putatively obtained from government departments and consumers’ organizations. They also assessed the trust that they had in these advisors and how similar their values were to them. We measured use of advice in terms of the proximity of the risk estimate to the advice. We found people’s verbal assessments of trust in a source correlated with how similar their values were to those of the source but not with how much they used the source in making their risk judgments. People did not make more use the advisors whom they said they trusted more.

**Combining Opinions: Why Don’t People Average?**

*Richard Larrick\* (Duke University), Jack Soll (Insead)*

In estimation and forecasting, simply averaging judgments is a highly effective way to reduce error. However, in a series of studies we find that people typically do not average. Rather, many people employ the *chase the expert* strategy. They make a guess about which person knows more about a given question, and put high weight on that person's judgment. *Chase the expert* has a high cost; most participants would have done better with averaging. We have identified two reasons why people disfavor averaging: (1) overconfidence in ability to identify the true expert, and (2) misconceptions about the benefits of averaging.

**Trust Me, I’m An Expert: Trust and Confidence in the Acceptance of Expert Advice**

*Lyn M. Van Swol\* (Northwestern University), Janet Sniezek (University of Illinois, Urbana-Champaign)*

A Judge-Advisor System (JAS) was used to examine advice utilization, confidence, and trust. With the JAS, the judge makes the final decision after receiving advice from one or more advisors. Two experiments found that on tasks with a correct answer advisor, confidence was the only predictor of the judge matching the advisor’s advice. However, on tasks with no correct answer, trust in the advisor predicted advice matching. Study 1 confirmed that trust was more important to the judge than advisor. A comparison of overconfidence between study 1 and 2 found that participants were more overconfident when they worked cooperatively in a dyad, rather than in a JAS.

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**Paper Session 1b, 11:00am – 12:30pm, Friday, May 31, Room 400**  
**Individual Decision-Making I**

**Distinguishing Between Implicit and Explicit Causal Reasoning**

*Frank Y. Guo\* and Patricia W. Cheng (University of California at Los Angeles)*

Hypothesis testing plays an important role in managerial decision making. It has been shown that the positive-test strategy, which involves examining cases in which the hypothesized condition is present, is a prevalent strategy for hypothesis testing (Klayman and Ha, 1987). In the case of hypothesis testing regarding causal relations, this strategy means that people tend to collect information regarding cases where the candidate cause is present (cause-present information), omitting information regarding cases where the candidate cause is absent (cause-absent information). However, much evidence in the causal reasoning literature indicates that people do use both cause-present and cause-absent information to form causal judgments. Whereas people use both cause-present and cause-absent information to evaluate causal hypotheses, they tend to search for only cause-present information for the evaluation purpose, even when the context strongly encourages them to search for cause-absent information. Two experiments were conducted to test this hypothesis.

**How to Aggregate Two Sets of Signals to Reach a Single Probability Judgment: Experimental Evidence**

*Carlo Kraemer\* and Martin Weber (University of Mannheim)*

In this experimental study we investigate how people aggregate two sets of signals about the state of the world to reach a single probability judgment. The signal sets may differ in the way signals are presented, in the number of signals and the quality of the signals. We analyze whether the presentation mode influences subjects' updating behavior. Furthermore we investigate whether subjects sufficiently control for weight (number of signals), strength (composition) and quality of the provided information. The results indicate that control for weight and strength of the signals strongly depends on the type of presentation of the signals. Particular patterns can be identified which determine if weight and/or strength are either under- or overweighted.

**Normative and Descriptive Implications of the Samuelson Paradox**

*Deborah Frisch (National Science Foundation)*

One of the main findings of behavioral decision research is that people's decisions systematically deviate from expected utility (EU) theory. While researchers agree that EU fails descriptively, they disagree about whether it is an appropriate standard of rational behavior. Allais (1954) and Ellsberg (1961) argued that their counterexamples to EU provided evidence against the normative status of the theory. Samuelson (1963) also created a counterexample but he did not present it as a challenge to EU's normative status. I will suggest that, ironically, the Samuelson paradox might provide the strongest evidence against the normative status of EU.

**Skilled or Unskilled, but Still Unaware of It: How Perceptions of Difficulty Drive Miscalibration in Relative Comparisons**

*Katherine A. Burson\* (University of Chicago), Richard P. Larrick (Duke University), Joshua Klayman (University of Chicago)*

In a recent paper by Kruger and Dunning (1999), the authors find that unskilled participants are also more likely to be miscalibrated about their relative abilities than skilled participants. Specifically, participants who performed in the lowest quartile relative to other test-takers grossly overestimated their actual percentile of performance, whereas those in the highest quartile slightly underestimated their actual percentile of performance. They attribute this pattern to systematic biases such as unskilled participants' lack of metacognition and skilled participants' overestimation of others' abilities. However, we believe that this effect can be explained by anchoring and regression to the mean. Two studies examine the contribution of these alternative explanations for the "unskilled and unaware of it" phenomenon. They show the effect described by Kruger and Dunning is easily reversed—where the "skilled" are less accurate in their percentile estimates—and strongly support an anchoring and regression explanation.

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**Paper Session 1c, 11:00am – 12:30pm, Friday, May 31, Room 404**  
**Consumer Choice I**

**Constructed Preferences and Housing Demand**

*Uri Simonsohn\* and George Loewenstein (Carnegie-Mellon University)*

People are often uncertain about their own preferences. In such cases, previous research has shown, preferences can be influenced by normatively irrelevant cues, such as arbitrary "anchors." We study this phenomenon by observing people's decisions about how much to spend on housing. Based on a simple model that incorporates preference uncertainty, we predict that people moving from expensive cities will pay more for housing than their equals moving from cheaper locations. We test this and other related predictions, with a sample of around 900 movers from the Panel Study of Income Dynamics. All the predictions are supported, controlling for demographic and income differences. Additional analyses rule out alternative explanations for the effect, including unobserved differences in wealth or tastes, capital gains taxation and imperfect information.

**The Costs and Benefits of Temptation: Choice Set Effects on Consumption Utility**

*Ravi Dhar (Yale University), Klaus Wertenbroch\* (Insead)*

The literature on impulsive behavior and self-control has mainly focused on the costs of facing tempting choices (e.g., Gul & Pesendorfer 2001; Muraven & Baumeister 2001). However, recent work on self-signaling (e.g., Benabou & Tirole 2001; Bodner & Prelec 2001) suggests that consumers can also derive benefits from facing tempting choices. If they select a less tempting option in the presence of more tempting options, the positive self-signal of one's virtuousness that is implied by resisting temptation may enhance the utility of consuming the less tempting option. More generally, we propose that choice sets affect the utility derived from the experience of consuming items that were chosen from these sets. Depending on the self-signaling value of the set of options, from which an item is chosen, the same item can provide different degrees of consumption utility. Moreover, we propose that moderation and restraint are more appealing in the presence (rather than the absence) of more indulgent options. Conversely, indulgence is more pleasant in the absence (rather than the presence) of more virtuous options. This proposition is at odds with traditional economic analysis, according to which alternatives that are present in the choice set but are not chosen cannot affect the utility derived from the chosen alternative. It also goes beyond descriptive research on effects of the choice context on choice (e.g., Bettman, Luce, & Payne 1998) or of the consumption context on choice (Dhar & Simonson 1999).

**Keeping Doors Open: The Effect of Unavailability on Incentives to Keep Options Viable**

*Jiwoong Shin and Dan Ariely\* (Massachusetts Institute of Technology)*

Decision-makers must often expand efforts to preserve the future viability of current options. Do decision-makers sometimes value such options more highly than the outcomes they make possible? Five experiments using a "door game," demonstrate that decision makers care a great deal about options and are willing to invest effort and money in order to keep options open, even when the options themselves seem to be of little interest. This general decision-rule of keeping options viable is shown to be resilient to information about the outcomes, to increased experience, to the cost of the options, and to the saliency of the cost and of the option elimination. Experiment 5 provides initial evidence that the mechanism underlying the tendency to keep doors open is a type of loss aversion and not regret.

**Discrepancy between Choice and Consumption Experience**

*Chris Hsee\* (Center for Decision Research, Chicago GSB), Jiao Zhang (Center for Decision Research, Chicago GSB) and Yan Zhang (CEIBS)*

Our talk concerns the relationship between choice (which option one chooses) and consumption experience (which option one enjoys the most during consumption). We argue that choice is typically made in the joint evaluation (JE) mode -- where multiple options are evaluated comparatively, and that consumption often occurs in the separate evaluation (SE) mode -- where only one option is considered at a time. Built on previous research showing JE-SE preference reversals, we predict and show an inconsistency between choice and consumption experience. It suggests that in choice people place too much weight on attributes that are difficult to evaluate in SE and will make little difference in consumption. This research has implications for both consumer behavior and social issues.

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**Paper Session 2a, 1:30pm – 3:00pm, Friday, May 31, Room 300**  
**Social Decision Making II: Deception and Trust**

**Seeing and Believing: Visual Access and the Strategic Use of Deception**

*Rachel T.A. Croson\** (University of Pennsylvania), *Maurice E. Schweitzer* (University of Pennsylvania), and *Susan E. Brodt* (Duke University)

While prior work has focused on the importance of visual access and visual cues to targets of deception, this article highlights its importance to deceivers. We introduce a new approach for conceptualizing deception and distinguish between two types of lies—tentative lies, that are inconsistent with the target’s interests and threaten the social interaction, and bold lies, that match the target’s interests and support the social interaction. We examine this distinction and its implications for the strategic use of deception, interpersonal trust, and retaliation by manipulating visual access in a negotiation experiment. We find consistent differences between these two types of lies as a function of visual access. The results support our conceptualization of tentative and bold lies and suggest that visual access (e.g. negotiating in person) may actually harm potential targets of deception—by increasing their risk of being deceived and inappropriately increasing their interpersonal trust.

**Deception: The Role of Consequences**

*Uri Gneezy* (Center for Decision Research, Chicago GSB)

This paper studies the role of consequences in a person’s decision to lie. Based on findings from an experiment with a deception game, as well as from questionnaires, I propose a simple formulation of preferences to describe deception behavior. The decision maker uses the “truth telling” outcome as a reference level when evaluating the benefits of lying. The monetary consequences of the lie are compared to this reference level. In the formulation used in this paper the decision maker’s utility depends on her own intentions. She is selfish in the sense of maximizing her own payoffs, but sensitive to the cost her lie imposes on the other side. Sensitivity diminishes with the size of payoffs. Moreover, since perception of the counterpart’s cost is subjective. When there are differences in wealth as in employee-employer relations or a consumer-insurer interactions, the decision maker is more likely to lie the wealthier the counterpart.

**Salience of a Recipient’s Alternatives and the Evaluability of Outcomes**

*Michel J.J. Handgraaf\** ( Tilburg University, The Netherlands), *Eric van Dijk*, *Henk A. M. Wilke* & *Riel C. Vermunt* (Leiden University, The Netherlands )

In ultimatum bargaining, both inter- and intrapersonal comparisons play a role. We investigated factors that influence the relative weighting of these components. In three studies we show that both introducing a nonzero exit option, as well as presenting recipients with a choice between the two possible outcome distributions instead of the usual accept/reject question, increases the relative weight of the intrapersonal comparison component. This makes recipients more inclined to accept unfair offers. In two more studies we focus on the comparability of possible outcomes. The relative weighting of a comparison component decreases if the associated comparison is less straightforward.

**Bargaining Under Asymmetric Information in Marketing Channels: Trust and Explicit Communication Influences**

*Joydeep Srivastava* (University of California at Berkeley), *Dipankar Chakravarti\** (University of Colorado at Boulder)

This paper examines the effects of trust and explicit (but structured) communication on bargaining in a marketing channel. A manufacturer and a distributor negotiate the wholesale price of a product under asymmetric information (the distributor, but not the manufacturer, knows the consumer reservation price). Grossman and Perry’s (1986) sequential equilibrium model is used to derive normative benchmarks to assess trust and explicit communication effects, each under a manipulation of manufacturer uncertainty. Experiment 1 shows that bargainers in a high trust condition reach more efficient agreements, irrespective of manufacturer uncertainty levels. In Experiment 2, explicit communication facilitates more efficient agreements when uncertainty is high (versus low). The manufacturer is the beneficiary but gains from the greater surplus extracted, and not at the expense of the distributors.

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**Paper Session 2b, 1:30pm – 3:00pm, Friday, May 31, Room 400**  
**Individual Decision Making II**

**Partition Dependence in Budgeting and Resource Allocation Decisions**

*Craig R. Fox (Duke University)*

Previous research (e.g., Fox & Rottenstreich, 2001) has demonstrated that judged probabilities are biased toward the “ignorance prior” probability that is defined by equal credence in all events into which the sample space is subjectively partitioned. An analogous pattern was reported in portfolio selection decisions by Benartzi & Thaler (2001). The present paper extends this research to budgeting and resource allocation decisions. In several studies we show that when participants are asked to allocate a scarce resource over a fixed set of possibilities, they are biased toward an “ignorance prior” distribution defined by equal allocation to all categories into which the set of possibilities is subjectively partitioned. Hence, decisions vary as different partitions are made salient to the judge. As we vary the hierarchical nature of the partition, the units of the partition, or the level of aggregation, we observe pronounced shifts in resource allocation decisions and budgetary assessments.

**Nonconscious Priming of Decision Processing Goals**

*Patricia W. Linville\* (Duke University), Jesper Nielsen (University of North Carolina at Chapel Hill) and Steve Hoeffler (University of North Carolina at Chapel Hill)*

This research examines the effect of priming information processing goals in decision making (e.g., the goal to be accurate or the goal to be efficient). Each study primes decision processing goals, followed by a judgment or decision task. The first study subliminally primed participants with either accuracy-related words (e.g., accuracy, correct), efficiency-related words (e.g. efficiency, simplify), or neutral words. Participants completed a mouse-lab decision task in which, on each trial, they searched for information prior to making a decision. As predicted, those primed with accuracy spent more time processing information prior to making each decision compared to a control condition; and those primed with efficiency spent less time processing information prior to making each decision. Our current studies examine the effects of priming decision goals on the use of heuristics. We use a word puzzle task to unobtrusively prime participants with either accuracy (e.g., correct, thorough), efficiency (simplify, shortcut), or neutral words. We examine the effects of priming these processing goals on the use of judgmental heuristics such as representativeness, as well as on the use of stereotypes as heuristics. In all of our studies, we examine both the temporary priming of decision goals as well as participants’ chronic use of decision goals, as measured by a decision making questionnaire we developed. In general, our findings show that it is possible to prime decision goals without awareness or intent, and primed goals guide decision behavior without people being aware of their influence or without changing the incentives confronting people. We address whether automatically activated decision goals follow the same process and thus produce the same decision outcomes as goals set in motion by conscious intentions. We close by discussing the role of nonconscious priming by external, environmental events on our decisions in everyday life.

**Assessing Evidential Support from Experience in an Uncertain Environment**

*Derek J. Koehler\* and Chris M. White (University of Waterloo)*

Support theory (Tversky & Koehler, 1994; Rottenstreich & Tversky, 1997), which describes how perceived evidential support for a set of competing hypotheses is translated into judged probability, provides a framework within which to develop models of evidence evaluation that specify how support is assessed in a particular task or domain. In the present research, we develop such a model to describe how a set of binary (present/absent) cues is evaluated in arriving at an assessment of the extent to which a cue pattern supports a designated hypothesis, where the perceived diagnostic value of the cues is based on previous experience in an uncertain environment. The model, called ESAM (for Evidential Support Accumulation Model), takes as input the frequency with which each cue has been previously observed to co-occur with each possible outcome or hypothesis under evaluation. The contribution of each cue value constituting the cue pattern to the support for a hypothesis is determined by its diagnostic value as computed from the stored frequency counts. The diagnostic implications of each available cue are assessed independently and summed to determine the support a cue pattern provides for a designated hypothesis, with greater weight placed on present than on absent cues in the summation process. The support for the focal hypothesis is assumed to be based on an exhaustive consideration of all cue values constituting the cue pattern. In contrast, support for alternatives to the focal hypothesis which are “packed” together in a residual hypothesis, is assumed to be based on consultation of a more restricted set of cues. The number of cues consulted in assessing the support for an alternative hypothesis included in the residual is assumed to decrease as the support for the focal hypothesis increases, producing a pattern of enhanced residual discounting (see Koehler, Brenner, & Tversky, 1997). ESAM’s fit to probability judgment data from several new multiple-cue probability learning studies is evaluated and compared to the performance of alternative models. ESAM outperforms such alternative models, and provides a generally good fit to the data. Of particular interest is ESAM’s ability to reproduce a pattern of results observed previously by Koehler (2000): The total probability assigned to a set of competing hypotheses tends to increase with the number of present cues in the cue pattern upon which the judgments are based.

**Information Leakage and Framing Effects**

*Craig R. M. McKenzie\* and Shlomi Sher (University of California, San Diego)*

An implicit assumption in framing studies is that logically equivalent frames do not communicate different, choice-relevant, information. We will present results from experiments showing that this assumption is (at least sometimes) false. That is, logically equivalent frames are not necessarily informationally equivalent. We find that (a) because background knowledge systematically affects frame selection, a speaker's choice of frame is often informative, and (b) listeners are sensitive to this "leaked" information. Because the putative implications of framing effects for human rationality presuppose the informational equivalence of logically equivalent frames, our results suggest that these implications may be exaggerated.

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**Paper Session 2c, 1:30pm – 3:00pm, Friday, May 31, Room 404**  
**Consumer Choice II**

**The Role of Motivation and Elaboration in the Use of Mail-In Rebates**

*John Gourville\** (Harvard Business School), *Dilip Soman* (Hong Kong University of Science and Technology)

Mail-in rebates are big business: By one estimate, the total value of redeemed mail-in rebates exceeds \$1 billion per year. Yet prior research suggests that a significant proportion of consumers purchase a promoted product intending to redeem the rebate, but fail to do so. Across three studies, we ask “why” and “when” are rebates effective and offer a motivational explanation for that effectiveness (or ineffectiveness). These studies suggest that consumers use rebates as a means to justify a preferred course of action. When strongly motivated to purchase a given product, they predict a high probability of redemption. When only weakly motivated to purchase, they predict a moderate probability of redemption. And when negatively motivated to purchase, they predict a low probability of redemption, all else held equal.

**Endorsement-Based Default Effects in Choice**

*Christina L. Brown\** and *Aradhna Krishna* (University of Michigan)

We present results of two experiments demonstrating that designating a choice alternative as a "default" (the option the consumer will automatically receive if he/she does not specify otherwise) increases the likelihood of its choice, because it conveys information about a manufacturer's endorsement (i.e., the default item is what the manufacturer intends for the consumer to have). Endorsement-based default leads to different predictions than two previously proposed mechanisms: that the default encourages the consumer to forego thorough processing of the alternatives (Johnson, Bellman, and Lohse 2001), and/or that the default generates a kind of endowment effect (Park, Jun, and MacInnis 2000).

**Quantifying Consumer Attitude Change: The Decision Threshold of a Probabilistic Model of Choice**

*Aaron Ashley Reid\** and *Claudia Gonzalez-Vallejo* (Ohio University)

A probabilistic model of choice captured changes in consumers' attitudes towards the aspects of a product as a result of persuasive communication. The proportional difference model of choice, PD (Gonzalez-Vallejo, 2002), was used to model changing choice propensities in consumers' decisions. Consumers' sensitivity to differences in cost and memory size for MP3 players was estimated by the decision threshold of PD for each individual. This threshold meaningfully quantified the changing attitudes of the consumers towards the products' attributes resulting from a persuasion manipulation. The data indicate that a consumer's sensitivity to attribute differences is affected by communication that extols the virtues of a particular attribute, and results in predictable changes in the consumer's choices. Implications for persuasive advertisement and tradeoffs of attribute value for product price are discussed.

**Decisions by Rules: Disassociation Between Preferences and Willingness to Act**

*On Amir\** and *Dan Ariely* (Massachusetts Institute of Technology)

In this work we propose a general decision making mechanism, whereby individuals making choices consider not only their preferences for different alternatives, but also “moral like” rules as guiding principals for their behavior. In some cases preferences for alternatives are disassociated from such rules, leading people to choose alternatives that fit the rules but not their preference, and thus don't maximize their happiness. Our experiments present two examples for such rules: “don't pay for delay,” and “don't pay for relationship.” The results show that people are aware that delay can be positive and that paying for relationship can be good, yet their choices deviate from their preferences. For example, people prefer to attend a concert in 2 weeks rather than today but will pay more for a ticket for the immediate rather than the delayed concert. We conclude with a discussion of other possible rules of similar nature.

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**Paper Session 3a, 3:30pm – 5:00pm, Friday, May 31, Room 300**  
**Social Decision Making III**

**Reducing Communication Errors with Verbal Probabilities**

*David V. Budescu\* (University of Illinois, Urbana-Champaign), Tzur M. Karelitz (University of Illinois, Urbana-Champaign), Thomas S. Wallsten (University of Maryland)*

Many forecasters prefer using probability phrases rather than numbers to convey different levels of uncertainty. This can cause miscommunications between forecasters and decision makers and may hurt the quality of the eventual decisions. We describe a blueprint for a general translator of linguistic probabilities. The translator calls for (1) selection of a vocabulary by each person, (2) modeling the meaning of the various words by each individual, and (3) applying optimal translation rules between different individuals. We describe several translation methods and report empirical results from two validation studies that document the beneficial effects of two, relatively simple, translation methods.

**Aspiration, Survival and Competitive Risk Taking in the Jeopardy Game**

*Elizabeth Boyle and Zur Shapira\* (New York University)*

We examine risk taking in dynamic competitive situations where decision makers evaluate their own and their competitors' positions. We hypothesize that performance aspiration and survival targets guide behavior in competitive situations but that under certain situations focusing continuously on one target may lead to a selection of inferior competitive strategies. We analyze data from the *tournament of the champions* of the *Jeopardy!* Game show. Analyses of regular season games showed that players at the second place in the game do not behave optimally. Our analysis reveals some interesting differences between those who lead the competition and those who trail them.

**Helping a Victim or Helping the Victim: Altruism and Identifiability**

*Deborah Small\* and George Loewenstein (Carnegie-Mellon University)*

Although it has been claimed that people care more about identifiable than statistical victims, demonstrating this "identifiable victim effect" has proven difficult because identification usually provides information about a victim, and people may respond to the information rather than to identification per se. We show that a very weak form of identifiability -- determining the victim without providing any personalizing information -- increases caring. In a first experimental study, subjects were more willing to compensate others who lost money when the losers had already been determined than when they were about to be. In a second field study, people contributed more to a charity when their contributions would benefit a family that had already been selected from a list than when told that the family *would* be selected from the same list.

**Selection Effects in Finance and Law**

*Jay Koehler\* (University of Texas at Austin), Molly Mercer (Goizueta School of Business, Emory University)*

Data that are selected for presentation by interested parties are diagnostically inferior to data that result from random sampling. Study 1 finds that companies selectively advertise funds that outperformed their other funds. Study 2 finds that investors are sensitive to transparent selection in mutual fund ads (as reflected by less willingness to invest), but insensitive to hidden selection. Study 3 finds that mock jurors are insensitive to hidden selection in a criminal case, even when warned about the possibility by the defense attorney. We conclude that people are sensitive to selection when the selective process is transparent but not otherwise.

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**Paper Session 3b, 3:30pm – 5:00pm, Friday, May 31, Room 400**  
**Individual Decision Making III**

**Outlook Theory:**

**An Alternative Model of Decision under Risk**

*Philippe Delquié (INSEAD)*

We take the idea of probability weighting back to square one with the goals of (1) avoiding the weaknesses of Prospect Theory and related models, and (2) exploring alternatives to Rank-Dependent Utility. In our Outlook Theory of decision under risk, an individual with a negative outlook on risks will subjectively transform a lottery by shifting some probability from higher to lower payoffs. The lottery is then valued as the EV of the transformed distribution. Because the whole probability distribution (as opposed to single probabilities) is transformed at once, probability weighting in Outlook Theory is naturally a function of the *entire* distribution. Risk aversion is determined by the degree to which an individual's outlook is pessimistic, and it is independent of how the individual intrinsically values certain outcomes.

**Evaluating Causes as Dimensions or Levels**

*Lyle Brenner\* and Wouter Vanhouche (University of Florida)*

When considering explanations for events, people often settle on a single cause and avoid more complex accounts that invoke multiple causes. We examine how different representations of events and causes may influence the tendency to endorse one or many causes. Events and causes may be construed either as *general dimensions* across which values will differ (e.g., weather), or as *specific levels* of those dimensions (e.g., rain). Across several experiments, we find that people are more willing to endorse multiple causes when the events and causes under consideration are represented as general dimensions rather than as specific levels.

**Motive Misperception and Inferential Asymmetry: When Rejections are Interpreted as Choices**

*Leif D. Nelson\* and Dale T. Miller (Princeton University)*

In three studies we demonstrated that observers interpret the actions of others as approach motivated, even when their own identical actions are motivated by avoidance. Study 1 showed that voters in the 2000 presidential election voted out of dislike for the alternative candidate, but thought similar voting others voted out of admiration for the person they chose. Studies 2 and 3 showed a similar pattern in the consumer choices made for jelly beans and soft drinks – when personally avoiding a disliked flavor, participants thought similar acting others were choosing the alternative. In the last study this led to suboptimal choices.

**Choice Processes and Models Go Online**

*Barbara Fasolo\* and Gary H. McClelland (University of Colorado at Boulder)*

Negative inter-attribute correlations are shown to affect information acquisition, decision processes and consumer satisfaction on choices made off web-based comparison tables (study 1); opinion portals (study 2); and decision facilitating sites (study 3). Factors considered are the structure of the attributes (conflicting or not), the choosers' equal or unequal preferences over the attributes, the sites' ability to show or hide trade-offs from the decision makers' sight, and the process facilitated by the site (compensatory or not). These studies show the importance of building decision tools that are robust to the frequent and unpleasant cases where attributes are negatively related.

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**Paper Session 3c, 3:30pm – 5:00pm, Friday, May 31, Room 404**  
**Dynamic Decision Making**

**Modeling Dynamic Inconsistency with a Changing Reference Point**

*Rachel Barkan\* (Ben-Gurion University of the Negev) and Jerome R. Busemeyer (Indiana University)*

A rational principle of decision-making, called dynamic consistency was tested by presenting decision-makers with a sequence of two gambles. The first gamble was obligatory and decision-makers were asked to choose whether or not they would take the second gamble. A planned choice was made before the first gamble was played and a final choice was made after experiencing the outcome of the first gamble. Dynamic consistency requires agreement between the planned and final choices. Violations of dynamic consistency were observed, e.g., anticipating gain, decision-makers planned to take the second gamble; but after experiencing the gain, they switched and rejected the second gamble. Two models of dynamic inconsistency were compared. One assumes that experience shifts the reference point and changes the utility associated with the gamble; another assumes that experience changes the subjective probability associated with the gamble. The reference point model provided the best account for the findings.

**When Options Appear in Sequence: Unwanted Order Effects in Different Evaluation Procedures**

*Wändi Bruine de Bruin\* and Gideon Keren (Eindhoven University of Technology)*

In most contests, candidates are judged *end-of-sequence*, after all have performed, or *step-by-step*, immediately after each performance. These respective procedures are used in the Eurovision Song Contest and international figure skating competitions. We find that, on average, end-of-sequence and step-by-step judgments increase with serial position. One explanation for this linear order effect concerns the comparison process. Because the current performance is salient, its features determine the comparison with previous ones (i.e. did it also have an impressive pirouette?). Whether the procedure is end-of-sequence or step-by-step, ratings increase in options with positive distinctive features, and decrease when distinctive features are negative.

**Bathtub Dynamics: Do People Understand the Building Blocks of Complex Dynamic Systems?**

*John Sterman\* (Massachusetts Institute of Technology) & Linda Booth-Sweeney (Harvard Graduate School of Education)*

Complex dynamic systems differ from many settings studied in prior research by the presence of long time delays, accumulations (stocks and flows), nonlinearities, and feedbacks. Research suggests people have great difficulty understanding and managing such systems. It is unclear, however, whether these difficulties arise from the artificiality of laboratory research tasks or more fundamental problems people have in understanding the basic building blocks of complex systems. We report experiments examining people's ability to understand the most basic elements of complex dynamic systems: stocks and flows, time delays, and feedback. We address the ecological validity of the results, arguing that for many important business and public policy issues the mode of data presentation in our tasks is the naturalistic context: The long time delays and limited ability to conduct experiments in complex business and public policy settings force people to rely on numerical and graphical models and weaken the forces that might lead to the evolution of high-performing heuristics. We discuss global warming as an example, and show that subjects have poor understanding of the basic stock/flow relationships governing the climate. We close with implications for education, from the elementary classroom to the corporate boardroom.

**Supporting Learning in Evolving Dynamic Decision Environments**

*Faison P. Gibson (University of Michigan Business School)*

An important aspect of designing decision environments is how to promote learning. In dynamic tasks such as supply chain management, process control, and bargaining, learning is difficult because outcomes must be attributed over a sequence of decisions as the decision context evolves. This study presents a computational model, based on simple recurrent networks and reinforcement learning, that provides an account of decision-maker learning in dynamic environments based on the structure of the dependencies between decisions and the availability of positive reinforcement. The model's recommendations for how to improve learning in an Internet bargaining task by grouping opponents whose decision making display different sequential dependencies, are tested in two experiments with human bargainers. Systems that help decision makers by grouping decision contexts where consistent sequential dependencies hold between decisions may be effective in improving learning in dynamic environments, but the availability of positive reinforcement is a strong limiting factor in the execution of this strategy.



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**Paper Session 4b, 9:00am – 10:30am, Saturday, June 1, Room 308**  
**Loss Aversion Symposium**

**Context Dependence of Economic Values: Time Preferences and the  
WTP-WTA Discrepancy**

*Robin Gregory (Decision Research – University of Oregon), Jack Knetsch\* (Simon Fraser University), Joseph Arvai (Ohio State University) and Katie Burns (University of Oregon)*

**Loss Aversion In Riskless and Risky Transactions: Choices, Exchanges and Gambles**

*Daniel Kahneman (Princeton University), Nathan Novemsky\* (Yale University)*

**Is There Loss Aversion Without Choice?**

*David Schkade\* (University of Texas & Princeton University) and Daniel Kahneman (Princeton University)*

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**Paper Session 5a, 11:00am – 12:30pm, Saturday, June 1, Room 300**  
**Decision Making and Time**

**Second Thoughts about Hyperbolic Discounting**

*Daniel Read\* (London School of Economics and Political Science) and Shane Frederick (Massachusetts Institute of Technology)*

Research in intertemporal choice generally suggests that rewards lose value at a diminishing rate. However, we show that much of the alleged evidence for hyperbolic discounting is attributable to a methodological artifact; that the representation of later dates typically entails the consideration of larger intervals. When interval length is held constant, we find no evidence for hyperbolic discounting. We also show that discounting is greatly reduced by expressing the time until the future reward in terms of the date at which the reward will obtain (e.g. "on June 1st, 2002") rather than as a temporal interval (e.g. "in two months").

**Searching Ordered Sets: The Combined Effect of Search Behavior and Presentation Patterns on Overall Evaluations**

*Kristin Diehl\* (Duke University) and Gal Zauberan (University of North Carolina, Chapel Hill)*

Interactive technology allows companies to order product offerings according to the customer's preferences. Such ordering creates a pattern of the items over time. We demonstrate that this pattern will have direct as well as search-mediated implications for consumers' quality and variety evaluations of the merchandise and the retailer and for consumer search. We show that whether improving or declining sequences lead to higher evaluations depends on the extent of search. Improving sequences lead to higher evaluations if search is exhaustive; when search is less than exhaustive, descending orderings lead to more positive overall evaluations of the selection and the provider.

**Evolution & Development of Preferences: The Role of Biased Search in Acquiring Taste**

*Steve Hoeffler\* (University of North Carolina), Dan Ariely (University of California, Berkeley) and Pat West (Ohio State University)*

Our taste and preferences change dramatically over time. These changes are in most cases too slow to draw our attention, but when we look back at our past taste and preferences, it is sometimes shocking to realize how much we have changed. These changes cover the gamut from food, to entertainment, and relations with others. In addition, they include aspects for which we both increased and decreased our liking over time. This research examines the role of experience in preference changes over time. We first document changes in preferences over time with experience and how experience impacts predictive accuracy in blind taste tests. Next, we investigate the mechanisms behind the role of exposure in preference development. We contend that anchoring leads to biased search, which impacts breadth of experience within a product category. The results show that some aspects of initial preference are lasting while others are ameliorated by the enhanced exposure. We contend that biased search is a key component of the potentially lasting impact of the initial experience.

**Learning a Complex Judgment Task through Experience and Education**

*Barbara Summers\* (Leeds University Business School), Daniel Read (London School of Economics and Political Science) and Trevor Williamson (Manchester Metropolitan University)*

Expertise can be acquired through education or experience but workers in most occupations use both methods, making it difficult to evaluate their relative importance. In this paper we study a field where such a separation is possible; the field of trade credit management. Our results indicate that, in the area of credit risk assessment, those with formal education can outperform those who learned from experience. We suggest that many of the conditions necessary for successful learning are absent from the hands-on learning environment of credit managers, but note that managers may have other skills that can mitigate the impact of this deficiency.



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**Paper Session 6a, 1:30pm – 3:00pm, Saturday, June 1, Room 300**  
**Decision Making and Regret**

**When Good Decisions Have Bad Outcomes: Attenuating the Effect of Regret on Switching Behavior**

*Rebecca K. Ratner\* and Kenneth C. Herbst (University of North Carolina at Chapel Hill)*

We examine whether individuals judge the merit of their own past decisions based on the outcomes of those decisions. We predict and find that individuals contemplating what decision to make in the future, sometimes will switch away from an alternative that produced an unfavorable outcome in the past, even when that option is more likely than other options to produce satisfactory outcomes in the future. Results suggest that this switching behavior occurs in part because individuals focus more on their emotional reaction to the previous disappointing outcome than to the future success probabilities of the different choice alternatives.

**Regret Avoidance in Pro- and Anti-Vaccination Choices**

*Terry Connolly\* and Jochen Reb (University of Arizona)*

Are important medical decisions shaped by an “omission bias”, a general tendency to prefer inactive to active options even when action offers the better prospect? In a scenario-based study of undergraduates (N=103) and non-student adults (N=192), both groups showed a clear majority preference for taking action (i.e. for vaccination). Further, vaccination intentions were influenced by the regret respondents expected to feel if either vaccination or non-vaccination choices were to lead to poor outcomes. Rather than showing a blanket bias towards inaction, respondents made regret-avoiding choices (some for action, others for inaction), driven by different individual regret expectations.

**Affective Determinants of Economic Behavior in the Dutch and English Auctions**

*Kip Smith, Kansas State University*

Our data suggest that affect (emotion) carries information about both public and private information in Dutch and English auctions. The English (ascending price) auction has a dominant strategy while the Dutch (descending price) auction does not; it requires a would-be winner to consider how others might bid. We examined whether this fundamental difference in auction structure would drive a differential affective response. It is reasonable to believe that participants with relatively high reservation values would display relatively higher levels of affect in Dutch auctions than in English auctions. We also examined whether affect would vary systematically with reservation value. It is reasonable to believe that high levels of values could be associated with elation. Alternatively it is possible that high values would lead to a relaxation response. In addition, we asked if winners in both type of auction display celebratory joy and participants with near-winning reservation values display. We interpret consistent patterns of change in heart rate that coincide with the release of public and private information during the auctions as evidence for emotions triggered by that information. First, as expected, prices in the auctions were consistent with the predictions of economic theory. The receipt of relatively high reservation values in the English is associated with a significant change in heart-rate. There is no sign of elation. In its place we see a relaxation and patient waiting to win. Second, heart rate tends to vary directly with the rank in reservation value; excitement increases with the likelihood of winning. Post-hoc analyses revealed that heart rate was a reliable predictor of prices in the Dutch auction for five of the 24 participants. For this significant subset of subjects,  $p < 0.003$  using a binomial test, affect appears to contribute to the formation of prices. This study supports the claims that public and private information in both types of auctions trigger affective information processing and that this affective response contributes to economic behavior

**Choice Deferral after Missing a Sale: The Role of Anticipated Regret**

*Michael Tsiros, University of Miami*

Most of the attention in psychological research has been given to the effect of actions on subsequent behavior with little attention given to the effect of inaction on subsequent behavior. In addition, past research in marketing has identified preference uncertainty and the absolute difference in attractiveness among the alternatives as the main causes of choice deferral. This paper examines how consumers behave after they realize that they missed a sale and they are faced with a smaller sale. Past research found choice deferral to be influenced by whether consumers anticipate to be exposed to the other (missed) alternative after the decision is made, as well as the difference in the magnitude between the two sales. This paper examines these relationships when the two sales are on the same product and finds the opposite effect. In other words, the effect of anticipated regret on choice deferral is moderated by whether the new sale is on the same product or on a similar one. In addition, the paper examines the situation where both the same and a similar product are available on the second sale.

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**Paper Session 6b, 1:30pm – 3:00pm, Saturday, June 1, Room 306**  
**Symposium: Heuristics and Biases in Investing Behavior**  
*Session Chair: Ravi Dhar, Yale University*  
*(Discussant: Colin Camerer, California Institute of Technology)*

**Decision Difficulty and Uncertain Preferences: Implications for Consumer Choice**

Since the advancement of the notion of bounded rationality by Herbert Simon, the field of *descriptive decision theory* has attempted to document evidence to define more precisely the bounds on human rationality. The systematic deviations from traditional models of rationality have also been applied to better understand investor behavior in financial markets, a natural laboratory to study the (in)efficiencies of human rationality. The objective of this session is to highlight some of the recent work in this area to advance our understanding of the heuristics and biases as manifested in the stock market. Just like other consumer choices, trading decisions are also proposed to be sensitive to various aspects of the decision situation. For instance, different contexts (e.g., analyst opinions, relative price movements) and tasks (e.g., buying or selling decisions) highlight different aspects and suggest different considerations, often giving rise to decisions that are biased systematically. The four papers in this session build on behavioral decision theory findings to explain investor motivations to trade. The first two papers focus on identifying empirical regularities in financial markets that point to judgment biases. The third paper identifies investment strategies of more sophisticated investors. And the final paper studies the effects of prior investment returns on current risky financial decisions. The discussant will suggest ways in which individual biases can be used to understand aggregate behavior, including mispricings in the stock market.

**All that Glitter: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors**

*Brad Barber (UC – Davis) and Terrance Odean (UC – Berkeley)*

We test the hypothesis that individual investors are more likely to be net buyers of attention-grabbing stocks than are institutional investors. We speculate that attention-based buying is a result of the difficulty individual investors have searching the thousands of stocks they can potentially buy. Individual investors don't face the same search problem when selling, because they tend to sell only a small subset of all stocks—those they already own. We look at three indications of how likely stocks are to catch investors' attention: daily abnormal trading volume, daily returns, and daily news and calculate net order imbalances for 66,465 individual investors with accounts at a large discount brokerage, 2,801,227 individual investors accounts at a large retail brokerage, 14,667 individual investor accounts at a small discount brokerage, and 43 professional money managers. We find that individual investors are tend to be net purchasers of stocks on high attention days—days that those stocks experience high abnormal trading volume, days following extreme price moves, days of high abnormal news intensity. Institutional investors are more likely to be net buyers on days of low abnormal trading volume than high abnormal trading volume. Their reaction to extreme price moves depends upon their investment style.

**Why the Stock Market May Underweight Bad News: An Empirical Analysis**

*Anna Scherbina (Northwestern University)*

Diether, Malloy and Scherbina (2001) document a bias towards optimism in stock prices whenever analysts disagree about the earnings per share forecast. The reason for this upward bias may be that investors do not properly adjust their stock valuations to account for the frictions that hinder the revelation of negative information. In this paper, I focus on two types of relevant frictions: Short-sale costs and analysts' incentives. Short-sale costs impede the revelation of negative opinions through "sell" orders. Incentives prevent analysts from reporting low earnings per share forecasts. I find that the data are consistent with the assumption that investors properly account for short-sale costs but ignore the upward bias in reported earnings-per-share forecasts that is due to analysts' incentives.

**A Non-Random Walk Down the Main Street: Impact of Price Trends on Trading Decisions of Individual Investors**

*Ravi Dhar (Yale University), Alok Kumar (Cornell University)*

We analyze the impact of price trends on trading decisions of more than 40,000 households with accounts at a major discount brokerage house and find that buying and selling decisions of investors in our sample are influenced by short-term (less than 3 months) price trends. We examine investor heterogeneity in trading based on prior returns and classify investors into (i) momentum buy, (ii) momentum sell, (iii) contrarian buy, or (iv) contrarian sell categories. The trading behavior of these investor segments show systematic differences. In particular, we find systematic variations in the response of these investor segments to reference points such as recent high and low prices. Furthermore, consistent with differences in expectations, the disposition effect varies across the investor segments. We also find that momentum investors hold less diversified and riskier portfolios and they trade more actively. As a result, in comparison to the contrarian investor segment, momentum investors earn lower risk-adjusted portfolio returns. Overall, our results provide support to the commonly held belief that relatively more sophisticated investors exhibit contrarian-trading behaviour.

**Further Evidence on the House-Money Effect and the Escalation of Commitment**

*Martin Weber and Heiko Zuchel (Universitaet Mannheim, Mannheim, Germany)*

An experiment on the influence of prior outcomes on risky choice in investment decisions is described. Manipulations of the format of the decision problem induced increased risk taking following a gain (a house money effect) or, alternately, increased risk taking following a loss (escalation of commitment). Maximization of a value function from Prospect Theory provides an explanation for some of these findings. Interestingly, the obtained escalation of commitment effect does not appear to depend on need to justify the initial decision.

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**Paper Session 6c, 1:30pm – 3:00pm, Saturday, June 1, Room 308**  
**Symposium: Consumers' Perception, Evaluation, and Decision Making about Time**  
**Session Chairs: Dilip Soman and Rongrong Zhou, HKUST**

**The Effect of Background Music and Messages on On-Hold Waiting Time**

*France Leclerc (Center for Decision Research, Chicago GSB)*

This paper focuses on tactics used by service providers to improve consumer satisfaction. More specifically, when consumers place calls to companies and are put on hold, they often have to listen to music or messages while they wait. One of the tactics frequently used is the repetition of one or several messages at regular intervals until an agent is ready to handle the call. Presumably, one of the assumptions underlying such tactics is that the time spent waiting won't appear as long if consumers are kept "busy" on the line. In an experiment, we found that more "events" (such as messages listened to) occurring during the waiting period do indeed make the period seem shorter but only when subjects are told ahead of time that they will have to estimate the length of the wait (prospective judgment). When people are asked about the length of the time period only after having experienced it (retrospective judgment), more events make the waiting period appear longer.

**When Time Is Not Like Money: The Role of Perceived Resource Slack in Revealed Time Preferences**

*Gal Zauberman (University of North Carolina) and John Lynch (Duke University)*

In this paper we demonstrate that revealed discount rates are a function of supplies of "slack" of different resources. Differential slack influences whether an investment causes consumers to fail to attain goals associated with other uses of that resource. In the very near term, investments will cause one to fail to attain other short-term goals, but only if little slack exists. If consumers cannot imagine the same level of competition in the future, they will appear to discount steeply. But if less slack is perceived at  $t+n$  than at  $t$ , reverse discounting will occur. We use this framework to explain differential discounting of time and money.

**On the Psychology of Queues: Why Does the Number of People Behind Matter?**

*Rongrong Zhou and Dilip Soman, Hong Kong University of Science and Technology*

In this research, we find that with more people behind, the waiting consumer is in a relatively more positive affective state, and the likelihood of renegeing is lower. We offer social comparison as an underlying mechanism for this effect – in particular, downward comparisons that the consumer makes with those less fortunate people behind him/her. We further demonstrate that three factors influence the degree of social comparisons made, and hence moderate the effect of the number behind: (a) queue factors that influence the ease with which social comparisons can be made, (b) individual factors that influence the personal tendency to make social comparisons, and (c) situational factors that influence the degree of social comparison through the generation of counterfactuals.

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**Paper Session 7a, 3:30pm – 5:00pm, Saturday, June 1, Room 300**  
**Symposium: The Influence of Prior Judgments on Current Evaluations**  
*Session Chair: Meg Meloy*

**Distortion of Information from a Descriptive Process Perspective of Human Decision Making**

*Ola Svenson (Stockholm University)*

Attractiveness evaluations are based on subjective representations of information. When the evaluations change systematically during a decision process as a result of value irrelevant factors, the process is distorted. Differentiation and Consolidation Theory is a descriptive process theory that includes distorted information processing. Differentiation is the process in which an alternative is separated from its competitors involving (1) *quick holistic decisions* (e.g., classification, affect heuristic). Differentiation also consists of (2) applications of different *decision rules*, (3) *restructuring of alternatives*, and (4) *decision problem restructuring*. Distortion of information refers to the restructuring of alternatives processes with three different kinds of restructuring. Empirical studies of distortion of information will be presented last.

**Decision Tasks: The Influence of Early Phases on Subsequent Evaluations**

*Fred Feinberg and Christie Brown\* (University of Michigan)*

A common concern in psychology is to understand how one evaluates items that have passed through some type of screening or selection process. For example, in studying post-choice ratings of satisfaction with an outcome we may be interested in how some factor in the choice environment—size of the choice set, perhaps—affects satisfaction with the chosen item. We present a theoretical account and a set of models that distinguish between the effects of the choice environment on early phases (i.e. which item is chosen) and on later phases (i.e., how the choice is evaluated). Acknowledging the relationship between phases is not only statistically correct, but may also give us the power to discover new effects.

**A Growing Commitment to a Developing Preference**

*Meg Meloy\* and J. Edward Russo (Cornell University)*

Most researchers agree that a premature commitment to a course of action may lead to suboptimal decision processes. However, that commitment may not be “all or none”, but may develop as more information is processed and ownership of the preference develops. In two studies, we show that asking which alternative is ahead increases commitment and contributes to increased distortion of new information. Unpacking information (Study 2) is shown to be one way that, when a leading alternative must always be identified, increases both commitment and distortion. For researchers tracing information processing, the methodological implications of ownership must be considered.

**Tracking the Activation of Goals during the Choice Process: Insights into Biased Processing**

*Kurt Carlson (Duke University)*

This paper introduces a method for tracking the activation of goals during the consumer choice process. The method is applied in two consumer choice studies, yielding data on consumer cognitions. In Study 1, the method was applied to two consumer choice phenomena. Actors’ goal activation data were consistent with expectations. Observers inferred actors’ goals, but were unable to do so with precision, suggesting that actors had relied on memory when reporting goal activations. Study 2 used the method to track goal activation during a wine choice. Results revealed logical goal activation patterns over time, expertise, display structure, and regulatory focus.

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**Paper Session 7b, 3:30pm – 5:00pm, Saturday, June 1, Room 306**  
**Symposium: The Psychology of Rates**  
**Session Chair: John Gourville**

**Downsizing Price Increases: A Differential Sensitivity to Price over Quantity**

*John Gourville (Harvard Business School) and Jay Koehler (University of Texas at Austin)*

As the cost of goods increases, manufacturers routinely pass these costs onto consumers, usually in the form of a straight price increase. A less obvious, but increasingly common, strategy is to “downsize”—to maintain the sticker price, but to reduce the size of the product. Normative principles suggest that “downsizing” should be no more effective than a straight price increase when it comes to product sales. Using two real-world data sets and two lab experiments, we show that this is not the case. Rather, we show that downsizing is more effective than a straight price increase at maintaining sales and that this effectiveness is due to consumers’ relative sensitivity to the price of a product over the quantity contained in that product.

**The Effect of Face Value on Product Valuation in Foreign Currencies**

*Priya Raghubir and Joydeep Srivastava (University of California, Berkeley)*

This paper shows that individuals’ valuation of a product in a foreign currency is biased towards its face value, with inadequate adjustment for the exchange rate. This leads to under-spending when the face value of a foreign currency is a multiple of an equivalent unit of a home currency and overspending when it is a fraction. In Studies 1 and 2, we demonstrate the robustness of this face value effect across a variety of currencies. Studies 3 and 4 show that the opportunity to process exchange information and one’s experience with a foreign currency – both measured and manipulated – moderate the face value effect.

**When Am I At Risk: Now or NOW? The Effects of Temporal Framing on Perceptions of Health Risks**

*Sucharita Chandran\* and Geeta Menon (New York University)*

Increasingly, consumers encounter statistics that frame the occurrence of a disease in terms of a temporal period (every day, every year, etc.). In three studies, we explore the consequences of framing a risky behavior as a ‘daily’ versus a ‘yearly’ statistic. Across different health-related domains we find 1) heightened risk perceptions and higher behavioral intentions to practice corrective/preventive behavior in the “every day” versus the “every year” frame and 2) an interaction of temporal frame with the nature of corrective actions performed (whether strategic or tactical) and with the regulatory focus of the message (approach or avoidance framing).

**Closing Remarks and Discussion**

*Jay Koehler (University of Texas at Austin)*



## Poster Session

Friday, 5:30-7:00, Rooms 600,602,604

### **Prospect Theory in the Short and in the Long Run (Room 604)**

*Manel Baucells, IESE Barcelona and Duke University*

The expected utility model of decision under uncertainty proposed by von Neumann and Morgenstern has been contested by many researchers because of its poor performance in explaining actual choice behavior. Prospect Theory is currently the leading descriptive model that explains behavior under uncertainty. We explore the short-term and long-term consequences of following Prospect Theory, as compared to following the “normative” axioms of expected utility. In the short run, we describe the several ways in which the behavior predicted by Prospect Theory produces stochastically dominated choices, or choices that would be rejected under a reframing of the decision. In the long run, we show the connection between the shape of a modified probability weighting function and the expected loss of Prospect Theory choices as compared to risk neutral choices. Under certain assumptions, this loss is a quadratic function of the difference between this modified probability weighting function and the identity function. We also present some examples of stochastic dominance in the long run that shows how Prospect Theory is a poor decision rule even if compared to any expected utility rule.

### **Risk Analysis Without Math (Room 604)**

*Robert Bordley, Renaissance Center*

Trees are widely used to represent and solve problems in Bayesian statistics, risk analysis, marketing statistics, reliability theory, and Markov chains. But they have three limitations: (1) for moderately sized problems, the tree becomes unwieldy; (2) while the tree is very good at visually representing qualitative relationships, it does not allow visual representation of quantitative information; and (3) the tree is not easily represented on a PC without special software. In the spirit of Tufte, this article presents an alternative, the circular decision tree, which visually represents all the information—problem structure, strengths of relationship, and values of nodes—using colors and arc lengths. Mathematical computations in the tree are accomplished by “mixing colors” from adjacent segments. Furthermore, it is easily programmable in Excel. Hence it is especially suitable for presenting problems to students and nontechnical audiences.

### **The Lure of Choice (Room 600)**

*Nicola Bown and Barbara Summers (Leeds Business School), Daniel Read (London School of Economics)*

In hypothetical scenarios, participants chose between a lone target ( $T_U$ ), and a further choice between another target ( $T_L$ ) and an inferior lure ( $L$ ). A given target was chosen more frequently when it was  $T_L$  than when it was  $T_U$ . This behavior violates the regularity condition (Tversky & Simonson, 1993). This “lure of choice” was also demonstrated in a version of the Monty Hall problem. Neither the asymmetric dominance effect nor physical proximity effects account for our findings. We suggest that the lure of choice is an overgeneralization of a choice heuristic that is reliable in the natural world, but not in a modern consumer’s world.

### **The Misuse of Input Information in Judgments of Outcome Quality (Room 600)**

*Karen Chinander, Miami University*

This research identifies an input bias, the systematic misuse of input information in judgments of outcome quality. We report results from three studies that identify and describe a robust relationship between input measures and judgments of outcome quality, even when people recognize that input measures should be irrelevant. We examine the mechanics of this relationship and consider the role of reference points in this judgment process. Our results suggest that input quantities below a referent may harm quality assessments more than commensurate input quantities above a referent help quality assessments. In many cases input measures are easy to manipulate, and we discuss implications of these results with respect to managerial decision making.

### **The Effects of Task Difficulty on Preferences for an Improving Ending in Time Constrained Visual Search (Room 600)**

*Danny Chow, University of Leeds*

There has been substantial evidence in the decision-making literature documenting the importance of the gestalt characteristics of an experience. Studies in this area have used a methodology that involves individuals passively receiving a set of experimental stimuli, and then rating their experience of the overall sequence afterwards. The stimulus set varies in terms of one of two dimensions the intensity, or degree of badness (e.g. dipping your hand in cold water at 5°C versus 15°C), and the duration (e.g. dipping your hand in cold water for 30 seconds versus 3 minutes). The present study extends this work by investigating whether this preference for an improving ending also occurs if the stimuli are part of a task involving active participation, and when the evaluation of those stimuli (how bad or good they are) depends on the nature of that task. In our experiment participants performed a simple time-dependent visual search task on a computer. This involved searching for a specific colored letter in a background of other colored letters (see Treisman, 1982) on a series of computer displays. We manipulated display *timing* (trend) and overall task *difficulty*. In the *deteriorating* timing condition the amount of time per display decreased over the task, while in the *improving* condition the amount of time increased (i.e., the task was either becoming harder or less difficult). We manipulated overall task difficulty by changing the relations between the target and background letters. In the *hard* condition participants were severely time constrained, and in the early stages of the improving

sequences and the late stages of the deteriorating sequences they were unable to complete the task; in the *easy* condition the timing of the displays, and the nature of the task, was identical to that in the hard condition, but the visual search element was easier and could be completed even under the shortest presentation interval. The varying degrees of time pressure between the easy and hard task was needed to ensure that the *magnitude* of velocity of outcome satisfaction (Hsee and Abelson, 1991) in either direction was higher in the hard task than in the easy task. We predicted that in the hard condition display timing would have a strong effect, with participants preferring the increasing sequence, while in the easy condition this effect would be reduced or eliminated. This is precisely what occurred. There was a significant main effect of timing and a timing-by-difficulty interaction. The interaction showed that while improving timing was preferred in the hard condition, there was no difference between timing conditions in the easy condition. We posit that the importance of the trend relative to the average intensity of experience is determined by the magnitude of velocity of outcome satisfaction; the higher the magnitude, the more significant the trend is to the overall retrospective evaluation of the sequence.

### **The Role of Affect in the Trust Decision Process (Room 602)**

*Jennifer Dunn, Wharton School of Business*

Despite the importance of trust to organizational behavior, surprisingly little is known about the mechanics of the trust decision process. In this poster we present experimental work that examines the effect emotion may have on this process. We explore this relationship in two studies. In each study, we induce an emotion (happiness, anger, or sadness) in the participants. In the first study we measure trust through the participants' expectations (positive or negative) regarding a peer's behavior. In the second study we operationalize trust behavior by playing the trust game. We discuss implications of these results for models of trust, and offer managerial prescriptions.

### **Correspondence to What? Coherence to What? What is Good Scenario-Based Decision-Making? (Room 600)**

*Clare Harries, Leeds Business School*

Scenario-based decision-making is widespread in business and organisations. Although several guidelines as to its practice are available, there is little, if any, economic or psychological theory underpinning this approach. In addition, there is little evaluation of it. There are numerous case studies purporting to demonstrate the successful use of scenario-based decision-making, where other strategies might have failed. But, given the possibilities of confirmation bias, a more rigorous assessment is needed. This paper examines the potential correspondence and coherence measures for evaluation of scenario-based decision-making.

### **Negotiator Outcome Satisfaction and Desire for Future Negotiations: Interactional and Distributive Justice at the Negotiating Table (Room 602)**

*Eli Kass, Saint Joseph's University*

This study invokes organizational justice theories to model negotiator outcome satisfaction and desire for future negotiation. Negotiator outcome satisfaction is expected to be a function of obtained outcomes, interactional justice perceptions, and distributive justice perceptions. The relationship between interactional justice perceptions and negotiator outcome satisfaction is expected to be partly but not wholly mediated by distributive justice perceptions. Desire to negotiate with a given party in the future is expected to be a function of outcome satisfaction and interactional justice perceptions. All hypotheses are supported.

### **To Go in for a Dip or Not? Perceived Probabilities of Swimming Despite Beach Risk Warnings Signs: Impact of Peer Presence and Frequency of Beach Visits (Room 600)**

*L. Robin Keller and Dipayan Biswas, University of California at Irvine*

Huntington Beach pollution warning signs differentially affect beach-goers' probability of 1) ignoring the signs, and going in the water anyway and 2) getting sick. Hypothesized effects were based on extant prior literature on the effects of consumer warning labels for cigarettes, alcohol and medicines. A "Keep Out: Sewage" sign is most effective, with the lowest probability of entering the water and highest probability of getting sick. Other people present in the water leads to a greater likelihood of going in, and more frequent beach visitors are more likely to go in the water, despite any warning signs that are posted.

### **Portfolio Choice in the Presence of Background Risk: An Experimental Analysis (Room 600)**

*Alexander Klos, University of Mannheim*

This paper reports the results of an experiment on portfolio choice in the presence of nontradeable income. The nontradeable wealth part could either be riskless or risky (background risk). In many cases, we observe behavior qualitatively consistent with the predictions of normative theory. However, correlations are neglected using a segregated description of the decision problem. The computation of aggregated risk profiles helps subjects to partly overcome the deviations from normative theory due to correlation neglect.

## **How do Investors Judge the Risk of Derivative and Nonderivative Financial Items? (Room 600)**

*Lisa Koonce, University of Texas*

Many accounting risk disclosures presuppose that variables from decision theory (i.e., probabilities and potential outcomes) are paramount to investors. Two experiments show that investors' risk assessments for financial items are best explained by a hybrid model that incorporates select decision-theoretic variables supplemented by variables from the research by Slovic. Results also reveal that while investors' risk assessments increase with the magnitude of potential gain outcomes, they are not sensitive to variations in gain probabilities. Finally, we rely on our hybrid model to explain why investors consider derivatives to be riskier than non-derivatives *even* when the underlying economic exposure is held constant.

## **A Cognitive Architecture-Based Theory of Meliorative Behavior (Room 600)**

*Christian Lebiere, Carnegie-Mellon University*

Melioration represents the behavior that people over-sample alternatives that give them higher current utilities at the expense of alternatives that maximize overall utilities. Herrnstein and colleagues (1993) tested two psychological mechanisms producing melioration: an information-processing mechanism and a motivational mechanism. We propose an alternative understanding of the underlying cognitive mechanisms of melioration, developed within the ACT-R cognitive architecture (Anderson & Lebiere, 1998). Namely, people's tendency to meliorate reflects the dynamics of their cumulative knowledge of the experimental environment and the limited cognitive means at their disposal to maximize their utilities given that knowledge.

## **Utilitarianism and Fairness as Two Different Families of Motives for Cooperation (Room 602)**

*Livia Markoczy and Katherine Randazzo, University of California at Riverside*

We distinguish two sets of motives that affect choice in social dilemmas. One set centers around trying to benefit the community as a goal in itself (utilitarian), while fairness centers around everyone doing their fair share. These should lead to different behavior when they interact with individuals' perception of a situation. Treating the California electricity crises as a social dilemma, we use survey and electricity consumption data from 700 households and find (as predicted) that fairness motivated people are more sensitive to what others do and utilitarian motivated people are more sensitive to their own sense of efficacy.

## **What is the Role of Emotions in Judgment and Decision-Making? (Room 600)**

*Roberta Muramatsu, Erasmus University of Rotterdam*

It is a commonplace that decision-making is shaped by emotions. Another commonplace is that behavioral disciplines do not incorporate emotions into their formal theory. This paper attempts to explain why this is so. More specifically, it aims to address the following questions: (1) If emotions are causally significant for inference and decision-making, what are the pragmatic reasons for downplaying their role? (2) How do emotions influence judgment and choice? (3) What are the implications of refining the psychological foundations of decision theory? Based on Simon's (1956) account of behavior and evolutionary psychology ideas, it will be suggested that a model of "procedural rationality cum emotions" provide us with a step toward an explanatory decision theory.

## **Simple Heuristics for the Repeated Investment Game (Room 602)**

*Jörg Rieskamp\* (Indiana University), and Gerd Gigerenzer (Max Planck Institute for Human Development)*

We study a bargaining situation—an indefinitely repeated investment game in which Player A decides how much of an endowment he wants to invest whereas Player B decides how much of the then tripled investment she wants to return. In two studies, we show that participants in the role of Player A make substantial investments ("trust"), those in the role of Player B return substantial parts of the money ("reciprocity") and both players act so that equal payoffs ("fairness") are possible. We test models of the underlying mechanisms of this behavior, and find that social heuristics can predict participants' choices substantially better than a reinforcement learning model and a baseline model. These heuristics explicate the underlying principles of what is commonly called trust, reciprocity and fairness.

## **Status Quo Selection Increases with Consecutive Difficult Decisions (Room 600)**

*Jason Riis and Norbert Schwarz, University of Michigan*

Order effects for the preference for a status quo option were investigated. In several experiments, decision makers were more likely to select the status quo option when a difficult decision task was preceded by another difficult decision task than when it was presented first. This order effect was observed when both decision tasks required participants to indicate which of two actions they would take, and when the tasks required subjects to indicate which action was morally appropriate. The latter result is taken as evidence that the effect is not due an increased feeling of responsibility. Such feelings would be less likely to arise when the participants merely offered judgments of moral appropriateness, rather than actually choosing a course of action. The order effect was not observed when the preceding task was not difficult, but it was observed both when the preceding task presented a difficult choice between a status quo option and an alternative, and when the preceding task presented a difficult choice between two options, neither of which was the status quo. Alternative explanations for the order effect are offered, including build-up of negative affect and feelings of uncertainty.

## **Regret-Minimization as a Decision strategy: Investigating the Accuracy of Regret Forecast (Room 600)**

*Nick Sevdalis, University College London*

Regret Theory postulates that decision-makers anticipate the post-decisional regret associated with different decision outcomes; these anticipations are in turn taken into account when decision-makers go through any decision task. The tendency to minimize regret in choice behavior has been well documented in the literature. It has been shown to hold for lottery tickets and gambles, for investment decisions, for negotiations, and for consumer behavior. We addressed the question of whether affective predictions are accurate or not. Participants had to predict their post-decisional emotional reactions (including regret) after an ultimatum-game. We also looked at the temporal pattern of these post-decisional emotional reactions over a five-day time-span. Overall, our findings indicate inaccuracy in the prediction of affect. This pattern of results questions the functional aspect of regret forecasts and of affective forecasts in general. We discuss both the implications of these results and some of the practical issues raised from a managerial point of view.

## **An Integrated SWAP/CEA Tradeoff Judgments Elicitation Procedure (Room 604)**

*Shih-Kung Lai, National Taipei University*

Even swaps is a tradeoff choice procedure that incrementally eliminates attributes, whereas CEA (Computation of Equivalent Alternatives) eliminates alternatives instead. The theoretical underpinnings of the two procedures are identical, i.e., making tradeoff judgments between attributes, though the elicitation processes of the two are quite different. The paper proposes a new procedure called SWAP/CEA that consolidates the two procedures into one. The proposed theoretical structure provides a basis on which CEA, Even swaps, and SWAP/CEA can be compared empirically.

## **Reverse Time Inconsistency: Saving the Best for Far Too Long (Room 600)**

*Suzanne Shu, Center for Decision Research, Chicago GSB*

Much of the research on procrastination and self-control has centered on the fact that individuals often procrastinate doing aversive tasks, such as exercising, retirement planning, or going to the dentist. However, there are also examples of individuals procrastinating doing highly enjoyable tasks, such as drinking a special bottle of wine or finishing the last pieces of a box of chocolates. This behavior has been labeled "reverse time inconsistency" because of the repeated deferral decisions exhibited by the individual (Loewenstein, 1987). Although savoring (utility from delayed consumption) has been postulated to be the primary driver of this behavior, it seems likely that other psychological mechanisms are also involved, such as mental accounting, regret avoidance, and planning errors. The research presented here intends to document examples of reverse time inconsistency and to distinguish between the psychological processes that lead to the effect.

## **Strategic Voting in a Non-experimental Situation (Room 602)**

*Jackie Snell, San Jose State University*

Contests between student groups for the best ad campaign in three sections of an undergraduate promotional strategy course created a conflict between community-interest and self-interest. Though instructed to vote for the best campaign, some students voted for one of the worst campaigns in order to give their own team a better chance (e.g. voted strategically). A subsequent questionnaire asked the same students about their ethical views. Game theory suggests that self-interest will usually overpower community interest – at least when further games are not anticipated. A major problem in the non-laboratory situation is estimating the amount of strategic voting that occurs. This poster suggests several tests and their underlying assumptions. The tests are then applied to self-identified strategic voters versus others.

## **A Multinomial Decision Process Model with Unconscious and Affective Components (Room 604)**

*Fred van Raaij, Tilburg University*

A multinomial decision process model is proposed to describe evaluation and decision processes, including conscious, unconscious, and affective components. This model is based on two empirical findings: (1) Unconscious processes such as implicit memory and familiarity lead to liking; (2) A dissociation exists between conscious and unconscious processes. The multinomial decision process model fits the data well. It models evaluation and decision processes, cognitive processes, affective response, and processing fluency, with affect and recognition value functions. Stimulus recognition and liking are basic processes of decision making and choice. These stimuli may be brands, persons, stocks, Chinese characters and other choice alternatives. Psychological research provides a better understanding of the foundations of economics, such as choice, preference, judgment, and decision processes. Decision processes are behind many judgment and choice tasks. The judgment and decision process is the foundation of preference and choice where selections are made from several stimuli after an evaluation of each stimulus. Evaluation and choice constitute the cornerstone of expected utility theory and modern economics. Expected utility theory is now well established, both in the classical sense and as in Prospect Theory (Kahneman and Tversky, 1979). The decision process framework (McFadden, 1999) describes the elements and their relations with individual information processing and decision making. McFadden (1999) describes a decision process framework that involves decision elements such as attitudes, perceptions/beliefs, affect, motives, and preferences. The input is information, and the output is choice. However, more work can be done to advance the framework with data and mathematical models. In addition, with the latest understanding from cognitive science, unconscious and automatic processes should be included in the framework. Research on unconscious and automatic processes has a history of conceptual exploration, such as research on psychological phenomena of implicit memory (Schacter, 1987; Ye, 1994; Ye and Van Raaij, 1997) and processing fluency in marketing (Klinger and Greenward, 1994; Janiszewski and Meyvis, 2001).

## **An Experimental Analysis of Decision Weights in Cumulative Prospect Theory Under Uncertainty (Room 604)**

*Mohammed Abdellaoui, (GRID, ENS de Cachan), Frank Vossman\* and Martin Weber, (University of Mannheim)*

Tversky and Kahneman's Cumulative Prospect Theory can be seen as one of the leading descriptive theories of decision making under uncertainty. We conducted an experimental study to characterize the utility function and decision weights of Cumulative Prospect Theory, employing a two-step procedure based on the trade-off method. As a first step, we elicit the utility function individually for each subject and without relying on specific parametric forms. In the second step, the utility function serves as an input to determine decision weights. Our results confirm concavity of the utility function in the gain domain and bounded subadditivity of decision weights. Furthermore, we find evidence for systematic differences between the decision weights of the gain and loss domains.

## **Confronting Strategic Inertia In A Top Management Team: Learning From Failure (Room 602)**

*Gerard Hodgkinson\*, (Leeds University Business School), George Wright, (University of Strathclyde, Scotland)*

Recently there has been a growing interest in the use of scenario planning techniques and related procedures such as cognitive mapping, as a basis for facilitating organizational learning and strategic renewal. The overwhelming impression conveyed within the popular management literature is that the application of these techniques invariably leads to successful outcomes. To the extent that this is not the case, the absence of documented accounts of instances where these techniques have failed may mislead would-be users into embarking on inappropriate courses of action, unaware of their fundamental limitations. In keeping with a number of recent calls to make organizational research and management theory more relevant to the world of practice, we present a reflective account of our own (largely unsuccessful) attempt to apply these potentially powerful methods of intervention in the context of a private sector organization. Drawing on the rich seam of qualitative data gathered over the course of our work with the senior management team of the organization concerned, we explore the reasons why our attempts to utilise these methods did not yield the benefits anticipated. The data are analysed using Janis and Mann's (1977) Conflict Theory of decision making. It is argued that the primary reason our process intervention failed is that the participants adopted a series of defensive avoidance strategies, amplified by a series of dysfunctional psychodynamic processes - initiated by the Chief Executive Officer (CEO) and culminating in the political sabotage of the project. We contend that these defensive avoidance strategies served as a means of coping with the unacceptably high levels of decisional stress, which arose as a result of having to confront a variety of alternatives, each with potentially threatening consequences for the long-term well being of the organization.

## **Belittling Can Be Better Than Flattering (Room 600)**

*Dai Xianchi (CEIBS), Chris Hsee and Jiao Zhang (Center for Decision Research, University of Chicago)*

We often render judgments (guesses, predictions, comments, etc.) about others. For example, we judge how smart others are, guess how much others make in their stock investments, etc. It is often assumed that the "listener" (the person who receives our judgment) will be happier if our judgment is better than the reality, compared to when our judgment is worse than the reality. For example, a person with an IQ of 100 will be happier if we guess his IQ to be 110 than if we guess his IQ to be 90. Do better-than-reality judgments always make the listener happier than worse-than-reality judgments? And, if not, under what conditions will worse-than-reality judgments make the listener happier? We propose that the listener's affective reaction to a judgment is a weighted combination of two factors, (a) a direct influence of the judgment (where better-than-reality judgments always make the listener happier) and (b) a contrast influence (where the judgment serves as a reference point for contrast so that worse-than-reality judgments will make the listener happier). Thus, whether better-than-reality or worse-than-reality judgments make the listener happier depends on the relative weight of the two factors described above. A set of studies, some run in China and some in the U.S., identify three moderators of the weight: (a) whether the reality is clearly known or is uncertain, (b) whether the listener cares more about the long-term consequence of the event to be judged or more about its impression value, and (c) whether the judgment is based on the listener's personal characteristics or on other cues. These studies show that under a set of predictable conditions, worse-than-reality judgments make the listener happier than better-than-reality judgments. Flattery is not always good. This research has important implications for interpersonal communications in both marketing and management.

## **Weak Sensitivity to Reputation-Building in an Ultimatum Scenario (Room 602)**

*Rami Zwick, (Hong Kong University of Science and Technology), Eythan Weg and Ching Chyi Lee, (The Chinese University of Hong Kong)*

The important experimental work of Camerer and Weigelt (1988) concludes that a "sequential equilibrium with homemade incomplete information describes actual behavior well enough that it is plausible to apply it to theoretical settings where individuals make choices." The present study attempts to explore Bayesian updating in a bilateral negotiated sale setup (an area well within the scope of the conclusion), injected with a whiff of ultimatum aroma. We conclude that the ultimatum nature of the basic game tends to overwhelm rational behavior on the part of the sellers and that buyers are not cognizant of favorable prices occurring later in the play.