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# Rational Roots of "Irrational" Behavior: Discussion

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The economic agents depicted in conventional economic models bear little resemblance to real human beings. When held up against the psychological and social complexities of real people, these stylized figures, so-called producers and consumers, are seen to be Flatlanders at best, lacking in most essential dimensions of humanity. Real people care about other people, make tradeoffs between many types of goods and nonmarket experiences, endeavor to think well of themselves in spite of all evidence to the contrary, engage in self-deception, make logical errors, and find many types of choices difficult or unpleasant.

In fact it seems rather fortuitous that simple behavioral models such as utility maximization and expected utility maximization often yield reasonable predictions of real economic behavior. When inconsistencies do arise between the optimizing behavior of economic stick figures and the choices made by real human beings, it should be obvious that the first place to look for an explanation is in shortcomings of the behavioral model rather than in the human beings. For most economists, the difficult thing is not to admit that the stick figures who inhabit conventional models are pitiful distortions of real people. The difficult thing is to find fruitful ways of extending the conventional models to make them more realistic.

One of the more successful applications of psychology to economics has been the Akerlof and Dickens paper on cognitive dissonance. The psychological premise that people have a need to think well of themselves is shown to imply that workers in unsafe occupations will tend to bias downward their subjective assessments of the probability of injury. They do this in order to sustain the belief that they are not stupid to be there. The paper is successful because it does three things. First, it identifies a bona fide psychological response which is

omitted from conventional economic models. Second, it predicts potentially observable behavior, namely a gap in the subjective probabilities assigned to the same events by different groups of people. And third, it points out an important policy implication: that a free market in more risky and less risky occupations may result in inadequate worker protection.

Similarly, Opaluch and Segerson focus on another important and interesting aspect of human psychology seldom discussed in economics, which they call "the psychological feeling of ambivalence." There are clearly many situations in which people find it difficult or uncomfortable to make choices. Ambivalence could be defined simply as a lack of ability to choose, for any reason whatever. However, the interpretation here is more explicit: "Ambivalence arises when the individual faces strongly opposing feelings when making a decision." Given this intensity of feeling, the individual is clearly not complacent, and "the decision-maker faces a dilemma where the outcome cannot be correctly described as indifference."

The illustration chosen by the authors is a choice involving tradeoffs between ordinary goods and moral principles, for example being offered a bribe. Moral choices are likely to create uncomfortable feelings of conflict, if not outright turmoil, in many people. But it is important to note that many other kinds of choices are also likely to evoke similar feelings of psychological conflict. In general any choice which forces the individual to choose among important outcomes is likely to elicit such feelings. It can be especially difficult to make decisions involving very different kinds of needs or desires. As Opaluch and Segerson say, "Ambivalence can arise when an individual's choice involves tradeoffs among characteristics which cannot easily be compared."

Since there is not time here to address the special problems associated with moral de-

cisions, it will be best simply to make a few comments about ambivalence, or "the psychological feeling of conflict," in general.

As Opaluch and Segerson point out, the need to make choices may in itself carry a degree of unpleasantness, particularly when the stakes are high. A person might have to choose between two careers, or two lovers. Or decide who goes in the lifeboat and who sinks with the ship. The last choice has a particular moral dimension which is lacking in the other two, but all are unpleasant choices to have to make. It is interesting to note that in each case, because of the painfulness of choosing, a person might actually prefer to have the choice taken out of her hands.

Conventional consumer theory does not recognize any gain or loss in welfare from having to make choices in itself. But this is the situation implied by Opaluch and Segerson's definition of ambivalence. The ambivalence effect, when it is not negligible, will influence human behavior and cause deviation from conventional assumptions. For one thing, people may find ways to avoid making decisions by flipping a coin, rolling dice, adopting simple rules of thumb, or asking someone else to choose. Such devices may help to relieve stress, but they also result in choices which do not conform to conventional assumptions that preferences are consistent, reflexive, transitive, and continuous.

Opaluch and Segerson clearly demonstrate these results in a two-commodity space where tradeoffs must be made between levels of two "goods." The fact that one of the goods is some measure of moral value rather than an ordinary commodity makes no real difference to the argument. In commodity space, however, it is impossible to distinguish between ambivalence as a "psychological feeling of conflict" and ambivalence as simple indifference or inability to choose. In either case there will be fuzzy areas like those depicted, in which the preference ordering is not complete. Many of the same devices might be resorted to in both cases to arrive at a decision—coin flipping, lexicographic rules, etc. And whenever such rules are followed, behavior will result which is inconsistent with the usual preference assumptions.

However, Opaluch and Segerson make it clear that they are interested in ambivalence caused by psychological conflict and not simply by indifference. I would like to suggest that such an effect cannot be adequately expressed in terms of ordinary indifference maps

in commodity space, but requires that the set of available choices be depicted in some way, not only the outcomes. Ambivalence implies that in addition to any utility obtained from the outcome, there is also disutility arising from the act of choosing. The unpleasant "psychological feeling of conflict" is caused not by any particular outcome or combination of goods, but by the need to make a choice.

Like risk and uncertainty, regret theory, and the theory of reference points, this situation requires a formulation of the problem in which utility depends on more than simply the final levels of goods or outcomes. Suppose for example the set of possible choices is defined as  $(X, Y)$ . The decision-maker is ambivalent, in the sense that the decision causes psychological conflict, for whatever reason. Define  $U(X, Y)$  as the maximum utility available given this set of choices. In conventional theory it will always be the case that  $U(X, Y)$ , utility from the choice set, equals the maximum of  $U(X)$  and  $U(Y)$ , the utility of either final outcome. With ambivalence, this will no longer be the case. In fact utility from the choice set may be less than the utility which would be obtained from either outcome if no choice had to be made. Thus "choice aversion" may be observed which is somewhat analogous to risk aversion. This is why a person may go to great lengths to avoid certain decisions.

Moreover, adding more choices does not necessarily improve things, since it may add to the feeling of conflict. Then  $U(X, Y, Z)$ , maximum utility given the choice set  $(X, Y, Z)$ , may be less than  $U(X, Y)$ , even though outcome  $Z$  in itself is more desirable than  $X$  or  $Y$ . The situation most closely resembles that in regret theory, because utility and preferences depend on the entire set of available choices, not just the outcome which is selected.

Opaluch and Segerson have identified a fascinating psychological phenomenon with broad implications for economic behavior. It should not be hard to think of empirical situations in which the predicted deviations from conventional theory are likely to be observed, for example situations in which a person deliberately acts to restrict the choice set.

One final note regarding empirical work, however, is that feelings of conflict may become important *only* when the stakes are high. If so, strategies for dealing with ambivalence, unlike other types of so-called "irrational" behavior, may not be apparent in the context of most everyday psychological experiments involving small payoffs.