

## Choice Aversion

'Choice aversion' attempts to explain people's tendency to avoid or delay making a difficult decision when faced with a large range of options.

Choice aversion could occur for a number of reasons. Firstly, more choice brings with it higher search costs and requires a higher level of cognitive effort to make a decision. Secondly, fear of regret is important. Those faced with greater choice feel that there is more chance they'll be disappointed (thinking, since there are many other choices, it's more likely that they could have made a better choice).

### Finding

The classic papers on choice aversion<sup>1</sup> examined how people reacted when faced with 24 or 30 options for jam, chocolate or even essay titles, compared with being given 6 options. Their findings suggested that people are less likely to make a choice at all when faced with too many options.

These results have proven difficult to replicate, but a new paper supports the idea of choice aversion. Le Lec & Tarrow (2012)<sup>2</sup> used an experimental approach to try and answer the question: how much are people willing to pay to have more (or less) choice?

The experiment set-up was intricate to try to ensure

participants revealed their true preferences.

The exercise revealed participants were willing to pay more to have less choice: 14% more for two options than for three or four; and a further 25% more to have no choice at all.

### Implications

This is particularly interesting as no search costs were involved, and the processing required to make the decision was not strenuous.

But of course this doesn't mean that choice is bad: competition between firms helps drive improved quality and reduced prices, from which we all benefit.

Nevertheless, perhaps in some markets (even those with potentially high stakes, such as utilities or insurance) we'd rather avoid making a decision at all, or are prepared to pay to have it made for us.

## Finding your best energy supplier

The government has outlined plans to ensure households get their most suitable energy tariff. But why are so many not already on the best tariff available?

### Finding

There are at least two reasons: the friction costs of finding the best deal (e.g. the time it takes to search); and the mental cost of having to make a decision.

This could mean that in some circumstances, it's perfectly rational to stay put, or not search enough to find the very best tariff.

Wilson and Waddams<sup>3</sup> found that low-income households in the UK who reported to have switched electricity suppliers (to minimise their bills) reduced their bills on average by less than half the amount they could have done.

More concerning was the significant minority of customers (17-32% depending on methodology) who switched and ended up with *higher* bills than had they stayed put.

There is also evidence that two 'behavioural biases' were at play:

- (i) Consumers' preferences for specific tariff structures
- (ii) Excessive sensitivity to certain components of tariffs (such as the initial fixed fee).

### Implications

The government proposes to make suppliers offer just four tariffs (including one fixed and one variable rate deal) at a single price for all customers, and to switch individuals automatically from out-of-date tariffs to the cheapest standard tariff. These steps will help to reduce search costs and choice aversion.

However, bills are also to include personalised information about their suppliers' cheapest tariffs.

To make this information more salient, it could be presented in a way that makes it clear how much *not switching* to the best tariff is costing the customer. This could be achieved by showing how much the customer would have to pay under each tariff, based on their actual energy use.

Related to this but covering a broader range of markets is the midata programme, which will give consumers access to their usage data in a computer-readable format.<sup>4</sup> The scheme has been running voluntarily since April 2011 but the Government is keen to see quicker progress and so recently announced plans to give it statutory backing.<sup>5</sup>

## Implementation Intentions and Child Safety

Most people intend to act responsibly. In most cases, people understand the risks of not doing so. Nevertheless, inconvenience, distractions or forgetfulness often obstruct us.

Some studies have shown that explicitly writing down one's intentions may increase the likelihood that the resolution will be kept.

### Finding

In addition to keeping appointments (e.g. flu vaccinations at a large firm<sup>6</sup>, or moderating risky behaviour<sup>7</sup>), a

recent field experiment (Vijverberg et al, 2012)<sup>8</sup> has shown how a written commitment device helped parents focus on their goal in the face of distraction.

All participants were provided with a large poster. It illustrated the dangers of children falling when left unattended.

Parents in the treatment group were also asked by health visitors to add to the poster their own statement about what would they do in each of several scenarios: (e.g. *'If (child's name) is on the couch in the living room and I am being distracted, then I will stay with (child's name), or take (child's name) with me'*).

After the treatment, their intention successfully translated into action: children were left alone 12% less frequently on average (or one instance per week fewer). With no change observed in the control group's behaviour, this effect was significant at the 1% level.

### Implications

Whilst there is not yet any evidence as to whether this effect persisted in the longer term, similar acts of positive reinforcement could be used by businesses and government, to help maximise compliance with repetitive procedures, or in parenting classes, for example.

Drawing on this and other recent work (e.g. Adriaanse et al),<sup>9</sup> written commitment devices are most effective when they are:

- (i) Specific rather than general; and
- (ii) Explicitly addressing the scenarios where it is most tempting to renege.

Perhaps we could all apply this to our own New Year's resolutions.

## References

- <sup>1</sup> Iyengar & Leper (2012), 'When choice is demotivating: Can one desire too much of a good thing?', *Journal of Personality and Social Psychology* 79:6
- <sup>2</sup> Le Lec & Tarroux (2012), 'On attitude towards choice: Some experimental evidence of choice aversion', *Working Paper*.
- <sup>3</sup> Wilson and Waddams Price (2010), 'Do consumers switch to the best supplier?', *Oxford Economic Papers* 62
- <sup>4</sup> [www.bis.gov.uk/policies/consumer-issues/consumer-empowerment/personal-data](http://www.bis.gov.uk/policies/consumer-issues/consumer-empowerment/personal-data)
- <sup>5</sup> <http://www.publications.parliament.uk/pa/ld201213/ldhansrd/text/121114-0001.htm>
- <sup>6</sup> Milkman, Beshears, Choi, Laibson & Madrian (2011), 'Using implementation intentions prompts to enhance influences', *PNAS* 108:26
- <sup>7</sup> Webb, Sheeran, Totterdell, Miles, Mansell and Baker (2011), 'Using implementation intentions to overcome the effect of mood on risky behaviour', *British Journal of Social Psychology* 51:2
- <sup>8</sup> Vijverberg, Aerts & Adriaansens (2012), 'Preventing unintentional falling injuries in children: The role of implementation intentions in improving parental supervision', *Working Paper*
- <sup>9</sup> Adriaanse, Gollwitzer, De Ridder, de Wit & Kroese (2011), 'Breaking Habits With Implementation Intentions: A Test of Underlying Processes', *Personality and Social Psychology Bulletin* 37:4