

Behavioral Economics

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Consider the phenomenon of ‘Choice Overload’, popularized by Iyengar and Lepper [2000], which we discussed in a previous lecture. We can characterize this behavior as follows: A decision maker is choosing from a set of alternatives (jams). They have a ‘default’ alternative x (don’t buy any jams), which is always available. When faced with a small set A , they choose to buy a jam $a \in A$ (so $C(A) = \{a\}$). However, when they are faced with a larger set of alternatives $A' \supset A$, they choose not to buy any jams (so $C(A') = \{x\}$)

1. As a warm up, show that this behavior is not consistent with utility maximization
2. Is it consistent with a model of satisficing, assuming that the alternative x is always ‘searched’ (i.e. the subject always knows that x is available? Either show how it is, or prove that it isn’t
3. If it is not consistent with satisficing, can you come up with a variant of the model which you think can capture what is going on?