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Challenges in research on preferences and personality traits: Measurement, stability, and inference ☆

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ABSTRACT

This paper reviews several traditions in economic research on preferences as well as research on personality traits in personality psychology and lists challenges in both fields. We discuss challenges regarding the measurement of preferences and personality traits, challenges regarding the stability of preferences and traits, and challenges when inferring causality. Additionally, we highlight areas in which we see potential benefits from taking into account methodological approaches or insights from the respective other discipline.

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1. Introduction

Research on preferences and personality traits is a blossoming field in economic and psychological science. Economic preferences and personality traits are related concepts in the sense that both are characteristics of an individual that have been shown to predict individual decision making and life outcomes across a wide variety of domains.[1] Moreover, both

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[1] For example, on average more patient individuals obtain higher levels of educational attainment, earn more, are more likely to exercise, to be a non-smoker, and less likely to be obese (Chabris, Laibson, Morris, Schuldt, & Taubinsky, 2008; Golsteyn, Grönqvist, & Lindahl, 2014; Shoda, Mischel, & Peake, 1990; Sutter, Kocher, Rützler, & Trautmann, 2013). A higher willingness to take risks is positively correlated with being self-employed, investing in stocks, with smoking, and actively participating in sports (Dohmen, Huffman, Sunde, Schupp, & Wagner, 2011). Social preferences are positively related to productivity at work in a team production environment (Carpenter & Seki, 2011) and to donations to charity (Cooper & Kagel, 2009). Personality traits also predict real life outcomes (see, e.g., Borghans, Golsteyn, Heckman, & Humphries, 2016; Caspi, Brent, Roberts, & Shiner, 2005). For instance, conscientiousness predicts educational achievement, occupational attainment, and job performance (Judge, Higgins, Thoreson, & Barrick, 1999).

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preferences and personality traits are assumed to have a high degree of stability over time although the definition of stability varies across disciplines (as we will discuss in section 3). Despite these commonalities, important aspects of preferences and personality traits, such as their conceptual foundation or approaches to their measurement, differ substantially. As a consequence of the similar interests and goals but differences in approaches, economic research on preferences can benefit from taking into account insights from personality psychology and, vice versa, personality psychology can benefit from traditions in economics. This is the main argument put forward in this paper.

We first provide an overview on traditions in economic research on preferences and research on personality traits in personality psychology. We then discuss (1) challenges regarding the measurement of preferences and personality traits, (2) challenges regarding their stability, and (3) challenges when inferring causality. Moreover, we point out areas which may benefit from taking into account methods or insights from the respective other discipline.

2. Measuring preferences and personality traits

The three key dimensions of economic preferences are time, risk, and social preferences. In brief, time preferences refer to how individuals decide on trade-offs between earlier and later rewards. Risk preferences describe how much risk an individual is willing to take, and social preferences reflect an individual's degree of altruism or envy. Measures of preferences are based on theoretical models. More specifically, economists rely on the assumption that individuals maximize their utility when making decisions. Preferences are fundamental parameters of utility functions.

Measures of economic preferences often make use of monetary trade-offs (over time when measuring time preferences; by varying degrees of uncertainty when measuring risk preferences; or in interactions between individuals when measuring social preferences). Economists typically follow the revealed preference paradigm that infers preferences from choices, which are often based on incentivized experiments, i.e., individuals are paid according to their own (and possibly others') decisions.[2] In order to measure time preferences, economists ask for instance: "What do you prefer: 100 euros now or 110 euros in one year?". Risk preferences are elicited using questions such as: "What do you prefer: 100 euros for sure or a 50% chance of winning 200 euros and a 50% chance of winning 0 euros?". A standard tool to measure social preferences are so-called dictator games in which one individual (the dictator) receives an amount of money and has to decide how much to give to a second, passive individual (the receiver) and how much to keep for herself.

In psychology, widely used measures of personality traits are based on the lexical hypothesis. The stance is that if traits are important in people's lives, there will eventually be a word for this trait in their language. These words can then be bundled. One commonly used taxonomy which resulted from this exercise is the Big Five personality traits (Openness to Experience, Conscientiousness, Extraversion, Agreeableness, and Neuroticism; Costa & McCrae, 1992). Openness refers to being open to new cultural or intellectual experiences. Conscientiousness reflects the tendency to be organized, controlled, and hardworking. Extraversion refers to socialness, activeness, and the tendency to orient one's energy to the outer world of other people. Agreeable individuals act in a cooperative, unselfish, and flexible manner. Neuroticism describes a chronic level of emotional instability, proneness to psychological distress, vulnerability, and impulsivity. Almlund, Duckworth, Heckman, and Kautz (2011) provide a more extensive description of the Big Five.

In order to measure a personality trait empirically, psychologists typically use validated batteries of self-report questions that fulfil criteria such as construct validity, criterion validity as well as test-retest reliability (see, e.g., Borghans, Duckworth, Heckman, & ter Weel, 2008). Construct validity (also internal validity) implies that different questions map into the same underlying construct or personality trait, and offer a coherent description of the same individual. Criterion validity (also predictive, behavioral, or external validity) is met if the resulting trait measure has predictive power for actual behavior that should be affected by the respective trait. For example, one would expect higher levels of conscientiousness to map into higher levels of income and wealth and this indeed is the case (see, e.g., Duckworth, Weir, Tsukayama, & Kwok, 2012).

There is a great potential for economists and psychologists to build upon each other's methods (much more than is currently done) in order to improve measures of preferences and traits. Here, we mention some largely unexplored challenges in both fields.

One challenge for economists is to better validate their measures. In this respect, Borghans et al. (2008) propose that measures of economic preference should be subject to the same psychometric standards as measures of personality traits. In personality psychology, the precision of measurement tools is tested using the test-retest-method: a measurement tool is only considered reliable if repeated measurements applied to the same individual over short periods of time, taken under the same conditions, and using exactly the same measurement tool result in sufficiently high correlations (according to a predetermined level such as, e.g., 0.7 or higher). Economists could use this powerful technique when searching for measures of economic preference parameters. A challenge when using this technique which is often overlooked is the assumption that traits are constant over time between test and retest. The longer the time interval between the tests, the less likely this assumption will hold. Moreover, economists should start comparing the predictive validity of various measures of the same

[2] In line with the tradition in psychology, economists also rely on non-incentivized self-reports concerning economic preferences that do not explicitly refer to monetary tradeoffs. An example of such a self-reported questionnaire measure of risk preferences is the corresponding question in the German Socio-Economic Panel (SOEP) data: "How do you see yourself: are you generally a person who is fully prepared to take risks or do you try to avoid taking risks?" The answers are on an 11-point Likert scale, where the value 0 corresponds to "not at all willing to take risks" and the value 10 means "very willing to take risks" (Wagner, Frick, & Schupp, 2007).

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