



# Trading off the benefits and costs of choice: Evidence from Australian elections<sup>☆</sup>



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## ABSTRACT

I investigate the robust predictions of a theory on the costs and benefits of dealing with increased numbers of choices in an election context. My data consist of a rich array of measures of voting behaviors and corresponding ballot and voter population characteristics for a panel of electoral districts from three Australian federal election cycles. I examine how the number of candidates and voting tickets on the ballot, as well as key moderating variables, affect the share of voters (1) opting for a simplified alternative to the baseline voting process; and (2) intentionally casting an invalid ballot. The findings indicate that incremental options can increase or decrease motivation to engage in a choice process; the overall pattern of results appears consistent with a diminishing returns model of expanded choice. Voters appear to trade off costs and benefits rationally in their decisions concerning how and whether to make choices. Public policies and private strategies should leverage moderating variables to encourage participation in choice processes and should account for opt-out tendencies at both ends of the choice spectrum.

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## 1. Introduction

A substantial body of psychological theory and evidence indicates that greater freedom of choice is associated with greater intrinsic motivation and overall satisfaction (e.g., Langer and Rodin, 1976; Taylor and Brown, 1988).<sup>1</sup> Consistent with this, it is axiomatic in economics that having a greater variety of choices increases a consumer's utility: given "well-defined" preferences, a consumer can generally get closer to his ideal option if he has more options. People in real life seem to get this: it has been found that individuals are more likely to select a choice set the more complete or richer the array of choices it offers (Iyengar and Lepper, 2000).

Meanwhile, a growing body of literature in psychology and economics suggests that having more options can demotivate individuals. As options and decision complexity increase, individuals tend to seek alternative decision processes and ways of framing their options that make arriving at a decision easier (Wright, 1975; Payne, 1982; Hauser and Wernerfelt, 1990; Timmermans, 1993; Chernev, 2003; Nagler, 2007). To avoid having to choose from an excessive option set, the individual

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<sup>1</sup> See Iyengar and Lepper (2000) for a number of additional cites.

may opt out of making a choice altogether: studies have found people less likely to purchase a good, invest in a 401(k) plan, or take on a loan as the number of options increases (Tversky and Shafir, 1992; Iyengar and Lepper, 2000; Boatwright and Nunes, 2001; Iyengar et al., 2004; Bertrand et al., 2010). Traditionally, explanations of these behaviors have centered on “choice overload,” the notion that individual limits on cognitive processing ability are what lead to demotivation as option arrays expand (Shugan, 1980; Malhotra, 1982; Gourville and Soman, 2005). Recent research has identified additional explanations. Concise option menus may provide superior contextual information to extensive menus, better enabling assessment of the quality of different options (Kamenica, 2008). A larger choice array may suggest to a rational individual that less surplus is to be obtained on average from making a choice, either because the average quality of the options is lower or because the firm will extract more surplus from consumers (Kamenica, 2008; Villas-Boas, 2009). Expanded choice arrays may also imply increased search and evaluation costs (Kuksov and Villas-Boas, 2010).

This paper investigates voter reactions to the number of options on the ballot in Australian federal elections. The key innovation of my approach is its ability to distinguish how people balance motivation against demotivation in their choice-related decisions. I am able to observe variation in the various perceived benefits of choosing (e.g., option variety, meaningfulness of the decision faced, one's ability to influence an outcome), while the costs, accruing the number of options and complexity of the choice process, are held constant. I am therefore able to witness empirically individuals' efforts to trade off a preference for making a choice against the desire to avoid choosing, where the latter accrues to the various drawbacks faced in situations in which the number of options is greater or the process less simple (e.g., when one must preference-order a large number of options). This balancing of the motivational and demotivational characteristics of choice is the paper's focal contribution; by contrast, previous papers in the empirical and experimental literature have tended to provide evidence on either the motivational or demotivational effects of expanded choice, but not on the interaction between the two.

My approach makes it possible to examine whether outcomes are consistent with the robust predictions of a theory that individuals experience – and seek to manage – both costs and benefits from expanded choice. Hauser and Wernerfelt (1990) and Kuksov and Villas-Boas (2010) have theorized about how agents might engage in cost–benefit tradeoffs when dealing with a large number of alternatives. Other work in the literature has explored the cost side extensively, pointing to the possibility of a certain number of options (e.g., six) as constituting a “red line” of sorts, with consumers being able to optimally process choice up to that number of options, but experiencing substantial degeneration in their capabilities beyond it (e.g., Miller, 1956; Wright, 1975; Malhotra, 1982).

My data consist of a rich array of measures of key voting behaviors and corresponding ballot and voter population characteristics for a panel of electoral districts from three Australian election cycles. In studying the Australian election context, I obtain insights from a “real life” choice situation that offers four specific advantages: (1) the baseline electoral process, according to which the individual must preference-order all the available options, is quite complex and so provides a natural setup for analyzing the decision-maker's complexity management “problem”; (2) the number of viable candidates on the ballot varies substantially across electoral contexts; (3) voting is compulsory, so selection effects accruing to which voters turn out versus which do not are avoided; and (4) alternatives to the baseline choice process offer a window on voter motivations concerning the costs and benefits of expanded choice.<sup>2</sup>

I find that voters' tendencies to choose alternatives to the baseline choice process vary in ways generally consistent with variations in the costs and benefits of choice. In particular, my results suggest that expanded choice sets yield diminishing returns; that is, they yield considerable net benefits at first, but these are inevitably overtaken by various sources of increasing cost or risk as option sets continue to expand in size and complexity. I also find broad evidence that individuals balance the perceived benefits and costs of choice at the margin. The findings therefore cast doubt on the red-line concept that limitations in individuals' abilities to process choices cause demotivation to cut in consistently at a particular threshold. My findings are largely robust to variations in the regression model and estimation techniques employed.

The rest of the paper is structured as follows. Section 2 motivates my use of the Australian federal elections as an object of study. Section 3 describes my dataset and empirical methodology. Section 4 presents the results of my analysis. Section 5 concludes.

## 2. The Australian federal elections

As mentioned in the introduction, four characteristics of the federal elections in Australia make them a revealing object for study with respect to individual choice behavior. In this section, I discuss these characteristics in greater detail. (In the Appendix, I provide a brief general primer on the Australian system of government and the structure of federal elections for House and Senate in Australia.)

<sup>2</sup> A number of previous papers (most recently, Augenblick and Nicholson, 2012) have analyzed “voter fatigue,” considering the effect of sequencing of options on a ballot on the tendency to make or avoid making a choice in a particular contest on the ballot. In contrast with these papers, my study analyzes the effect of varying the size of the choice array on a single binary balloting decision, i.e., that of whether or not tender a valid ballot, or whether to vote an entire ballot by a simplifying process.

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