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Are default contributions sticky? An experimental analysis of defaults in public goods provision

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ABSTRACT

Previous research provides compelling evidence that defaults affect individual behaviour in several domains. However, evidence of their influence in strategic interaction is scant. We experimentally investigate the effect of defaults on contributions to a public good and attempt to shed light on potential channels through which they operate. Our main experimental findings show that defaults influence contribution behaviour: preference for a suggested contribution significantly increases when it is presented as the default. However, this effect seems not to operate primarily through information conveyance or expectations about others' behaviour. Default contributions, thus, appear to have an attractive power that goes beyond recommendation signals and expectation influences.

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1. Introduction

Our everyday economic decisions are pervaded by defaults. Defaults are predefined choices that become effective when decision makers do not take an action to change them. We encounter defaults when, for example, installing software, buying a flight ticket online, or ordering in a fast food. In many situations marketers, employers, and policymakers set default options that would not be problematic in a fully rational world, since people would not stay with defaults that do not correspond to the best option for them (Thaler and Sunstein, 2003). However, recent research has shown that defaults have the power to influence individual behaviour in domains as diverse as retirement savings (e.g., Madrian and Shea, 2001; Choi et al., 2004; Bütler and Teppa, 2007; Beshears et al., 2008), consumption (e.g., Johnson et al., 1993; Park et al., 2000; DellaVigna and Malmendier, 2006), organ donation (Johnson and Goldstein, 2003). More recently, experimental contributions provided evidence that defaults also affect choices in strategic situations, such as contributions to public goods (Altmann and Falk, 2009; Carlsson et al., 2011). Why do default effects occur in social dilemmas? Is it because of the information conveyed, i.e., defaults are interpreted as a suggestion? Is it because they serve as a stronger coordination device for those who cooperate conditionally? To answer these questions, we compare contributions to a public good in three different treatments in which the common-knowledge suggested contribution received by the members of a group assumes alternatively the form of simple advice given by a human participant, the form of default contribution set by a human participant, and the form of default contribution set by a computer with a certain probability. When it assumes the form of default, participants automatically contribute this amount unless they specify a different amount. When it assumes the form of simple advice, participants are asked to actively make their contribution, without any kind of automaticity. To check the effectiveness

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of the common-knowledge suggested contribution as coordination device, we elicit participants' beliefs about their group members' contributions. Our main experimental results show that defaults influence contribution behaviour: preference for the suggested contribution significantly increases when it is presented as the default. However, this seems to be explained by neither information conveyance nor impact on expectations about others' behaviour alone. Default contributions, thus, appear to have an attractive power that goes beyond recommendation signals and expectation influences. The remainder of this paper is organized as follows. Section 2 reviews previous studies investigating default effects and discusses some contributions related to our study; Section 3 describes the experimental design and procedures and outlines the main predictions of the relative behaviour in the different treatments; Section 4 presents the results of the experiment; Section 5 summarizes and discusses the main experimental results and concludes.

2. Background

One of the most robust findings in the behavioural and experimental literature is the existence of a default bias, i.e., an exaggerated preference for the default option. For example, Johnson et al. (2002) found that participants in a Web experiment were much more willing to be notified about subsequent surveys when the yes-response was checked by default than when it was not, and Park et al. (2000) reported that participants chose a car with a larger and more expensive set of options when the fully loaded model was presented as the default. In addition to their impact on consumption choices (e.g., Johnson et al., 1993; DellaVigna and Malmendier, 2006; Pichert and Katsikopoulos, 2008), the pervasive influence of defaults has been documented also in more consequential decisions such as organ donation and retirement savings. Johnson and Goldstein (2003) showed that the rates of consent for organ donation are dramatically higher in the presumed-consent than in the explicit-consent countries, and Madrian and Shea (2001) reported a dramatic increase in the participation in retirement plans following a switch from opt-in to opt-out participation default. More recently, experimental contributions provided some evidence that defaults play a role also in strategic situations. Altmann and Falk (2009) and Carlsson et al. (2011) showed that contributions to a public good (an experimental and a real one, respectively) are greatly influenced by the default contributions set by the experimenter.

Why do default effects occur? Several explanations have been put forward in the literature. One set includes effort-based explanations. Making decisions requires cognitive effort and, often, also physical effort, such as completing a form, making phone calls, or going to an office. Some decisions may also involve questions that are likely to generate negative emotions. Sticking to the default may thus reflect an attempt to economize on cognitive, physical, and emotional effort. Effort increases with the complexity of the decision at hand. Complexity may stem from a variety of factors, for example the amount of time available for deciding (Dhar and Nowlis, 1999), the number of options to be evaluated (Iyengar and Lepper, 2000; Iyengar et al., 2004), the lack of familiarity or expertise, or the presence of decisional conflict, i.e., the lack of compelling reasons to choose one option over another (Shafir et al., 1993). The tendency to accept the available default option should thus be greater when facing difficult decisions (Tversky and Shafir, 1992; Mitchell and Utkus, 2006; Fleming et al., 2010). Another set of explanations focuses on cognitive biases related to the concept of loss aversion (Kahneman and Tversky, 1979), according to which the disutility associated with a loss is greater than the utility associated with a gain of the same magnitude. Evidence of loss aversion can be found in the well-known endowment effect (Thaler, 1980), i.e., the tendency for people to value an object more when they possess it than when they do not. In the case of defaults, an endowment effect may be at work: people may perceive the default option as something they possess and, thus, place more value on it. Loss aversion is also responsible for the status-quo bias (Samuelson and Zeckhauser, 1988), i.e., people's tendency to prefer the current state of affairs over a change. The status-quo bias often occurs together with the omission bias (Ritov and Baron, 1992), i.e., people's tendency to prefer inaction over action. Retention of the default option can be explained both in terms of status-quo bias—since the default can be perceived as the current state of affairs—and in terms of omission bias—since no action is required to accept the default, while an action is needed to change it. It has also been proposed that defaults matter because of the information they convey. Specifically, people may interpret the default as an implicit recommendation. If there are no conflicts of interest between those who set the default rule and the recipients, the default option is seen as a reasonable choice, since it can reflect what most people do or what informed people think is sensible to do (Johnson and Goldstein, 2003; Sunstein and Thaler, 2003; McKenzie et al., 2006). More recently, it has been proposed that defaults affect behaviour because they serve as a cue by which people construct their preferences (Dhingra et al., 2012).

In this study we investigate default effects in strategic interaction, specifically in public goods provision. Indeed, while the influence of defaults in non-strategic environments has been object of extensive research, their influence in strategic settings has been under-investigated. The available evidence is limited to cases in which there are switching costs (although small) and the defaults are set by the experimenter. Defaults set by the experimenter have the potential to create a strong demand effect or, conversely, to make participants perceive a conflict of interest. We are interested in whether default effects are sticky also when there are no cognitive and physical costs for departing from the default and when defaults are not set by the experimenter. In addition, we aim to deepen our understanding of why defaults influence behaviour in strategic settings. It might be due to the information conveyed by default options, i.e., to the fact that defaults are perceived as a suggestion about what choice to make. Previous research has highlighted the effectiveness of suggestions in shaping contribution choices. For example, Croson and Marks (2001) investigated the role of suggestions in a Threshold Public Goods Game, where suggestions were posted in the instructions and were based on a symmetric cost-sharing rule, i.e., the cost

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