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Augmenting short Cheap Talk scripts with a repeated Opt-Out Reminder in Choice Experiment surveys



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ABSTRACT

Hypothetical bias continues to be a major challenge for stated preference methods. Cheap Talk (CT) has been found to be an effective remedy in some applications, though empirical results are ambiguous. We discuss reasons why CT may fail to effectively remove specific types of hypothetical bias in Choice Experiments. We suggest augmenting CT in Choice Experiments with a so-called Opt-Out Reminder (OOR). Prior to each choice set, the OOR explicitly instructs respondents to choose the opt-out alternative, if they find the experimentally designed alternatives too expensive. In an empirical survey we find the OOR to significantly reduce total WTP and to some extent also marginal WTP beyond the capability of the CT applied without the OOR. This suggests that the CT practice should be adapted to fit the potentially different decision processes and repeated choices structure of the Choice Experiment format, rather than merely being adopted directly from Contingent Valuation.

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1. Introduction

Stated preference methods such as the Contingent Valuation Method (CVM) and Choice Experiments (CE) are known to suffer from hypothetical bias, which drives a wedge between *true* and *hypothetical* Willingness-To-Pay (WTP) (Bosworth and Taylor, 2012; Carlsson and Martinsson, 2001; Carlsson et al., 2010; Harrison and Rutström, 2008; List and Gallet, 2001; List and Shogren, 1998; List et al., 2006; Moser et al., 2014; Murphy et al., 2005a).¹ The presence of hypothetical bias, or perhaps rather finding ways of dealing with it, has proven to be one of the biggest methodological validation challenges for stated preference methods.

In the attempt to mitigate hypothetical bias, Cummings and Taylor (1999) introduced and tested a reminder known as “Cheap Talk” (CT) in a referendum CVM study. Cummings and Taylor (1999) found the CT to reduce stated WTP and effectively eliminate hypothetical bias. However, the effect of CT has been tested extensively in subsequent referendum, open-ended, payment ladder and dichotomous choice CVM studies, and the results here are less positive with regard to the effectiveness of CT for mitigating hypothetical bias. More specifically, Aadland and Caplan (2003, 2006), Ami et al. (2011), List (2001) and Lusk (2003) find that CT only influences the preferences of specific sub-groups, such as inexperienced respondents. Similarly, Barrage and Lee (2010), Mahieu (2010) and Ladenburg et al. (2011) find that only female respondents are influenced by the CT. Ami et al. (2011), Nayga et al. (2006) and Blumenschein et al. (2008) find that CT does not effectively reduce WTP in their surveys, while Aadland and Caplan (2006) and Carlsson et al. (2011) find that the CT actually increases WTP. In addition, Morrison and Brown (2009) even find that CT can have too strong an influence on the stated preferences, in that hypothetical WTP is significantly over-calibrated, i.e. leads to underestimation of the actual WTP. Furthermore, the effectiveness of CT has been found to be sensitive to the bid range applied. Brown et al. (2003) and Murphy et al. (2005b) find that CT only has an effect on the respondents who are presented with bid levels in the higher end of the bid range in dichotomous choice and referendum CVM surveys. However, both of these studies find that hypothetical bias is present across the entire bid range applied and not just the higher end. This implies that CT fails to eliminate hypothetical bias at the lower end of the bid range. Related to this extensive line of research on CT and hypothetical bias, Murphy et al. (2005b: 337) comment that “... it is likely that a number of factors affect hypothetical bias and therefore no single technique will be the magic bullet that eliminates this bias”. This statement is supported by List and Shogren (1998), who find that the impact of hypothetical bias is good and context-specific.

Despite the ambiguous results mentioned above, it has become quite common to include CT in CVM surveys. Furthermore, this practice has been widely adopted in CE surveys, even though the number of studies testing CT in CE is much lower, and these surveys also find results that question the effectiveness of the CT in a CE context (Bosworth and Taylor, 2012; Carlsson et al., 2010; List et al., 2006; Moser et al., 2014; Özdemir et al., 2009). Hence, it would seem that in CE, as well as in CVM, CT might not be a hypothetical bias panacea.

In the present paper, we argue that simply adopting the CT practice from CVM to CE fails to recognize important structural differences between the two valuation methods. First of all, in CE three types of hypothetical bias are distinguishable, depending on whether the bias affects the intensive margin of choice, i.e. the marginal WTPs, or the extensive margin of choice, i.e. the decision to opt in, or both. These different types of hypothetical bias are indistinguishable in referendum/dichotomous choice CVMs, in which CT was originally tested. Secondly, CE respondents are typically asked several more valuation questions than in CVM, which requires the effect of the CT to be maintained over all choice sets. Finally, the specific wording of the rather short CT scripts often used relies to a large extent on reversed conformity effects, which may not be sufficiently motivating for respondents to actually avoid hypothetical bias.

We contribute to the literature by suggesting an augmentation of the commonly used CT in the form of a small additional script, an “Opt-Out Reminder” (OOR), which explicitly reminds respondents

¹ We stick with the traditional assumptions concerning the rational consumer, despite the current tendency in the literature to acknowledge that “true” WTP might depend on contextual factors, and that actual behaviour does not necessarily follow the standard axioms of rational choice theory.

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