Behavioral Economics

Tutorial 3
Procedural Rationality

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- We're going to explore what might constitute 'appropriate deliberation' in two different contexts where finding the best option is problematic due to there being a vast number of options and challenges in assessing them
- So, we need to figure out a way of choosing that doesn't consume needlessly large amounts of time, etc., but which can be justified as likely to result in a good choice
- As well as considering a sequence of things to do, also consider things that it might be wise not to do

An example: Kitchen Renovations

An effective procedure for not getting ripped off might be:

- Request suggestions for good kitchen renovation firms on your local suburb's Facebook page
- Check the review ratings of those suggested
- Invite quotations from firms with the top three review scores
- Ask to see their portfolios of testimonials and examples of work done, visit their showrooms
- If none of these is acceptable in terms of price, availability, or design flair, check out the next on the list
- If the top 6 firms all have a problem, reconsider one's aspirations (how much to spend, what to hope to get, when to get it installed), and review their quotations

Task 1: How to deliberate appropriaetly when choosing a mobile phone conection service plan

Also consider how your procedure might be different:

- If you have a clear idea of your usage

- If you have a lot of uncertainty about your usage

In small groups, try collectively to work out a set of steps for solving this puzzle (and be prepared to justify your approach)

If usage is known, perhaps do this:

- Check the dominant provider (or the second-biggest provider) to get an idea of worst case, then set maximum price goal that is two-thirds of this
- Google 'awarding winning mobile phone providers'
- Google 'mobile phone plan comparison sites'
- Check the top 3 sites in the search results to see which has an in-site calculator. Select the one with the widest coverage of providers
- Compare offerings from 'award winning' providers at comparison site using its calculator and plan summary, to see monthly cost. Do any seem cheap enough?
- Check details at provider's website in case the comparison site has left out some details of significance
- Do your own calculations if award winner isn't listed on comparison site
- If unsure about how charges are levied, and how different plan types work, use Google to find sites that explain this
- If none of the plans seems cheap enough, ask Facebook friends for suggestions, or check what Aldi offers if not on award winners list

If usage is uncertain, perhaps *also*

- Take note of signals that providers give via plan names
- Don't go for a plan with a long-term contract
- Ask friends how much they spend per month and then see what is offered by plans that are $10 per month less than friends typically spend
- Focus on call charges and how much data is included, don't worry about other charges
- Examine costs with some best-case and worst case scenarios for calls and data to see how plans differ in their riskiness

Task 2: How to deliberate appropriately when hiring academic staff

- When a well-ranked school of economics advertises entry-level positions via the annual hiring round of the American Econmic Association (in November) it may gets 500-600 applications (online via the Headhunter site), each with a long cover letters, the applicant's CV, 1-3 academic papers and long reference letters from 2-3 referees
- If there are only, say, 3 positions to fill, how should it try to avoid wasting resources in the hiring process?

An example that may not constitute 'appropriate deliveration'

- Ads mention areas of particular interest but always encourage any field, hence huge number of applicants
- Hiring committee of 3-5 Economics staff allocated sets of applications to 'appropriate' colleague, to rate out of 10 online (in Headhunter)
- Based on these ratings, a long list of about 40 emerged via a big meeting, with those who scored 9/10 or 10/10 deemed 'too good' and hence unlikely to accept an offer (to be sent nice letters encouraging them to get in touch if they don't get a job in an elite school of economics)
- Anyone with an in-house PhD rejected: must go elsewhere for first job
- The hiring committee goes to AEA Convention and informally interviews the long-listed applicants, selecting 12-15 to fly in for seminar presentations, meeting with members of the School and a formal interview
- Interviews take place over 3 weeks, with offers being made during the process, and often declined, until offers have been made to all 'appointable' candidates
- 'Appointability' based on potential to publish in top-tier journals, subject to looking OK as prospective teacher

Problems with the system in the example

- Enormously expensive in time, travel and accommodation
- Prone to lead to disproportionate hiring of economic theorists due to status of theory journals
- Trying to share the workload among existing faculty may in some jurisdictions run into legal issues associated with the privacy of applicants (e.g., the law may specify that applications can only be seen by members of the appointments committee and HR staff may even be unsure whether candidates can be required to give presentations an audience of their prospective colleagues other than those on the appointments committee).)

So, can you design a better system?

A Herbert Simon-inspired alternative

- Include campus/lifestyle promotion pack in details for applicants
- Don't fly anybody in for an interview, use Skype or Zoom instead – you'll learn just as much (cf. 'Simon's Travel Theorem' from his autobiography *Models of My Life*, which is applied further in Chapter 13 of *Principles of Behavioral Economics*)
- Rely on referees, online interview, teaching awards/ratings to assess teaching capacity
- Advertise each position separately, as a specific job, to be handled by a committee of specialists (makes task manageable for them, stops theorists from gaming the system)
- Have committee members read applicants' papers rather than requiring Skype or Zoom presentations to demonstrate research/presentation skills; focus particularly on sole-author papers
- Only look closely at candidates from top-100 universities; expand to top-200 if wider net turns out to be needed
- Prioritize candidates who have published at least a B-rank journal article during PhD if PhD isn't yet finished
- Don't make offers to those who have not published anything in first two years after award of PhD