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Choice deferral, indecisiveness and preference for flexibility ☆

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Abstract

In a standard model of menu choice, we examine the behavior of an agent who applies the following *Cautious Deferral* rule: "Whenever in doubt, don't commit; just leave options open." Our primitive is a complete preference relation $\succcurlyeq$ that represents the agent's choice behavior. The agent's indecisiveness is captured by means of a possibly incomplete (but otherwise rational) preference relation $\hat{\succcurlyeq}$. We ask when $\succcurlyeq$ can be viewed as a Cautious Deferral completion of some incomplete $\hat{\succcurlyeq}$. Under the independence and continuity assumptions commonly used in the menu choice literature, we find that even the smallest amount of indecisiveness is enough to force $\succcurlyeq$, through the above deferral rule, to exhibit preference for flexibility on its entire domain. Thus we highlight a fundamental tension between non-monotonic preferences, such as preferences for self-control, and tendency to defer choice due to indecisiveness.

Keywords: Incomplete preferences; Preference for flexibility; Choice deferral

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1. Introduction

The primitive of the theory of choice among opportunity sets is a preference relation defined on a collection X of subsets of a given space of alternatives. These subsets are interpreted as "menus" from which an alternative will be selected at some later (unmodeled) stage. With this dynamic interpretation in mind, Kreps (1979) introduced a monotonicity property called "preference for flexibility," which states that a decision maker (henceforth, DM) should weakly prefer a given menu to any proper subset of it. This property appears particularly appealing when the DM faces unforeseen contingencies and has become a fairly common postulate in the menu choice literature.[1] Yet, there are many situations in life where an agent may strictly prefer smaller menus to larger ones, for instance if he suffers from temptation à la Gul and Pesendorfer (2001) or if he anticipates regret as in Sarver (2008).[2] Because they typically focus on a single psychological phenomenon, most models of menu choice allow for either preference for flexibility or commitment concerns, but not both. In this paper, we investigate the extent to which both concerns may coexist within a single framework, provided one imposes some discipline on the way those concerns may emerge.

We propose that one circumstance under which the DM may prefer flexibility over commitment is when he is unable to decide between two courses of action. Indeed, a large experimental literature starting with Tversky and Shafir (1992) documents a higher tendency to defer choice when the available alternatives have conflicting attributes. We study the behavioral implications of imposing the rule "Whenever in doubt, don't commit; just leave options open" in a standard menu choice environment. Our paper shows that this intuitive rule, which ties preference for flexibility to indecisiveness, may itself preclude the expression of any desire for commitment.

The idea of indecisiveness is of course not new in decision theory; it dates back to Aumann (1962), and is usually modeled directly by dropping the assumption of completeness of the preference relation $\hat{\succcurlyeq}$ that represents the tastes of the DM.[3] Although rarely studied in this context, the assumption of incomplete preferences appears reasonable in the context of menu choice, since the objects of comparison have a complex nature. At the same time, we rarely observe the tastes of the DM; instead, what we see are the choices he makes. Furthermore, assuming that the choice correspondence is non-empty, then its revealed preference $\succcurlyeq$ is necessarily complete.

We therefore take as our primitive a complete preference relation $\succcurlyeq$ on X, which represents the choice behavior of the agent. We assume that the choices of the DM reflect his tastes whenever those are defined, by requiring that $\succcurlyeq$ be a proper completion of some underlying incomplete preference $\hat{\succcurlyeq}$ representing the DM's tastes. We connect the DM's indecisiveness to his preference for flexibility by requiring that whenever two menus A and B cannot be compared by $\hat{\succcurlyeq}$ (denoted $A \hat{\bowtie} B$), then one should observe $A \cup B \succcurlyeq A, B$. Intuitively, an indecisive DM will often seek to defer choice if he expects to be better informed in the future or if he needs additional time to contemplate a difficult decision. Under such circumstances, choosing not to commit to a given menu can be seen as a cautious attitude. We thus coin this behavioral property *Cautious Deferral* and call a completion consistent with it a *Cautious Deferral completion*.

[1] See for instance Dekel et al. (2001, 2007) and more recently Krishna and Sadowski (2014).

[2] Many other phenomena have been modeled through non-monotonic preferences over menus; see Lipman and Pesendorfer (2013) for a comprehensive review.

[3] Incomplete preferences have been studied in a variety of settings; see for instance, Peleg (1970), Dubra et al. (2004), Bewley (1986) or Ok et al. (2012).