

Psychological Biases and Optimal Search

Idea for Future Research

By James Sly

Behavioral economics has identified a number of psychological biases that affect the way we make decisions. In addition, how well we make decisions is going to depend on how we engage in search behaviors to identify and evaluate all the possible options available to us, and this too in turn is going to be affected by our psychological biases. In particular, present bias tells us that people tend to overweight costs and benefits that happen in the immediate present compared to the future, and since search behaviors impose immediate short term costs in order to get uncertain long term benefits, people are likely going to undervalue the benefits from investing more in search activities. On top of that, search behaviors are going to lead to unexpected disappointments as many options that get evaluated will not work out, which will be felt as losses and weighed more heavily compared to the possible future gains of finding a better alternative in the future. If the decisions are complex, made relatively rarely, and force people to switch from one option to the other, then they also might experience a lot of status quo bias that causes them to stay with their current option more than they should. If the decision to make a switch has a variety of pros and cons, the future advantages from making the switch are going to be experienced as gains, while the possible disadvantages from giving up their current option are going to be felt as losses, which is going to be bias the person to stay with their current choice because are losses weighed twice as heavily as gains when making the decision.

Ideally, these behavioral insights into search activity could be applied to low stakes decisions made extremely frequently (like your choice of meals, restaurants, or entertainment options), to repeated but infrequent decisions of moderate stakes (like your job or city to live in), and to one time extremely high stakes decisions (like spouse, college, or career choice). In all likelihood, people probably systematically invest too little in searching through their available options and are less likely to switch when better options do become available, which could have an important impact on critical decisions made throughout a person's life.