Utility Theory

1   Question

Do people choose the options that they will most enjoy? No, they don't make accurate predictions of what they will like.

2   Four errors of hedonic forecasting

1. Current emotional state: projection bias

    Hungry shopper example, "projection bias", "hot-cold empathy gap", health club memberships, high-brow movies.

2. Context: focus on irrelevant factors

    Stereo speakers: focus on sound in the store, looks at home. Predictions about food enjoyment with an irrelevant alternative in view.

    Music and snack selection: *diversification bias* when planning.

3. Evaluating the past: duration neglect

    a. Like predictions, memories are anchored to present emotional state.

    b. *Peak/end rule.* 60 seconds in cold water vs. 90 seconds with warming in last 30. Colonoscopies: shorter vs. longer with merely uncomfortable ending.

4. Affective forecasting

    a. Focusing bias: when thinking about California, focus on weather. But quality of life is influenced by many other things.

    b. Adaptation: paraplegics, lottery winners. *Duration bias*, neglect future change in focus away from injury, money, etc..