

A Model of Focusing in Economic Choices

Ádám Szeidl

Central European University

Abstract

We present a generally applicable theory of focusing based on the hypothesis that a person focuses more on, and hence overweights, attributes in which her options differ more. Our model predicts that the decisionmaker is too prone to choose options with concentrated advantages relative to alternatives, but maximizes utility when the advantages and disadvantages of alternatives are equally concentrated. Applying our model to intertemporal choice, these results predict that a person exhibits present bias and time inconsistency when—such as in lifestyle choices and other widely invoked applications of hyperbolic discounting—the future effect of a current decision is distributed over many dates, and the effects of multiple decisions accumulate. But unlike in previous models, in our theory (1) present bias is lower when the costs of current misbehavior are less dispersed, helping to explain why people respond more to monetary incentives than to health concerns in harmful consumption; and (2) time inconsistency is lower when a person commits to fewer decisions with accumulating effects in her ex-ante choice. In addition, a person does not fully maximize welfare even when making decisions ex ante: (3) she commits to too much of an activity – e.g., exercise or work—that is beneficial overall; and (4) makes “future-biased” commitments when—such as in preparing for a big event—the benefit of many periods’ effort is concentrated in a single goal.

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