

SUMMARY

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Piles of Peanuts: Research on Small Decision Making Professor Daylian Cain, Yale School of Management

I assisted Daylian Cain of the Yale School of Management on “Piles of Peanuts: Research on Small Decision Making.” My responsibilities were to conduct a literature review and to help brainstorm ideas and experiments. This is a two-year project and I plan to continue working on it with Daylian.

By definition, people with the peanuts effect are risk-seeking for small amounts, as opposed to risk-averse which is assumed in classical and even behavioral economics (e.g., prospect theory would need revision if the peanuts effect were true). The peanuts effect is also relevant to the idea that people are more willing to do things with negative expected value “once at a time” and will do so repeatedly; but they will not commit to such repeated play all at once. For example, on Monday, someone may not want to eat an entire cake in the upcoming week, but having one piece at a time doesn’t seem to hurt, so he continually eats “just one more piece,” and by Friday the cake is regrettably gone. One goal of the project is to understand under which conditions the peanuts effect exists and how one can moderate it; another goal is to examine how these effects can explain various anomalies in intertemporal choice.

The majority of my literature research was on procrastination, which is intimately tied to the peanuts effect— someone would not commit to putting off a task for a full month, but when he puts it off one day at a time, it makes sense to do so, and then a month later he regrets his actions. In the literature, procrastination is attributed to time-inconsistent preferences (hyperbolic discounting). Daylian hopes to show that procrastination and other phenomena are due to the peanuts effect along with time-inconsistent preferences. For my literature review, I also read papers about regret, prospect theory, dieting, marketing, gambling, and framing.

SRO was a wonderful experience. By working one-on-one with Daylian, I was able to see how a professor conducts his research, which is far different from how he approaches his classes. I highly recommend SRO to all enthused young economists.