

Utah State University

DigitalCommons@USU

Economic Research Institute Study Papers

Economics and Finance

2005

A Bayesian Examination of Anchoring Bias and Cheap Talk in Contingent Valuation Studies

David Aadland

Arthur J. Caplan
Utah State University

Owen R. Phillips

Follow this and additional works at: <https://digitalcommons.usu.edu/eri>

Recommended Citation

Aadland, David; Caplan, Arthur J.; and Phillips, Owen R., "A Bayesian Examination of Anchoring Bias and Cheap Talk in Contingent Valuation Studies" (2005). *Economic Research Institute Study Papers*. Paper 311.

<https://digitalcommons.usu.edu/eri/311>

This Article is brought to you for free and open access by the Economics and Finance at DigitalCommons@USU. It has been accepted for inclusion in Economic Research Institute Study Papers by an authorized administrator of DigitalCommons@USU. For more information, please contact digitalcommons@usu.edu.



ERT
2005-14

A Bayesian Examination of Anchoring Bias and Cheap Talk in Contingent Valuation Studies

David Aadland, Arthur J. Caplan and Owen R. Phillips*

October 2005

Abstract

We present a theoretical framework for understanding the relationship between anchoring bias, hypothetical bias, and cheap talk in contingent valuation surveys. In our theory, interviewers provide agents with signals such as cheap talk and bid values while eliciting the value for nonmarket goods. In response to these signals, agents revise their prior distributions over the value of the good. Previous empirical studies have failed to account for the interaction between cheap talk and anchoring during this updating process, leading researchers to incorrectly assess the effects of cheap talk in reducing hypothetical bias. In particular, we predict that cheap talk will appear to be more effective for relatively large bids. We test our theory in an experimental setting where agents are asked to make a hypothetical, voluntary contribution to a public good. The experimental results, as well as several recent empirical studies, are consistent with the theory.

JEL Codes: Q51, C11, C91

Keywords: Cheap Talk, Bayesian Updating, Contingent Valuation, Anchoring Bias, Incentive Incompatibility

*Aadland and Phillips are associate and full professors of economics at the University of Wyoming, PO Box 3985, Laramie, WY, 82071-3985, USA; 307-766-4931 (Aadland phone); 307-766-5090 (fax); aadland@uwyo.edu (e-mail). Caplan is an associate professor at Utah State University, 3530 Old Main Hill, Logan, UT 84341. Support from the Paul Lowham Research Fund is gratefully appreciated. We thank Chris McIntosh and Neil Wilmot for their assistance with the experiments.