

## Padua 2017 Abstract Submission

### I want to submit an abstract for:

Conference Presentation

### Corresponding Author

Denton Marks

### E-Mail

[marksd@uww.edu](mailto:marksd@uww.edu)

### Affiliation

Department of Economics, University of Wisconsin-Whitewater

### Keywords

behavioral economics, rationality, consumer theory

### Research Question

How do lessons from behavioral economics and related neuroscience alter our views of wine consumer decision making and the role of expert opinion?

### Methods

Literature review

### Results

A critical assessment of disparate approaches to cognitive processes (behavioral economics, art, gastronomy) to our understanding of wine consumer decisions and implications for the role of expert opinion.

### Abstract

Thinking "Fast and Slow" and Otherwise and Wine Consumer Decisions (DRAFT)

Denton Marks

University of Wisconsin-Whitewater (USA)

### ABSTRACT

The emergence of behavioral economics has stimulated new thinking about the content of economics as a behavioral science. While some classically trained economists view the emerging field skeptically, decisions to award Nobel Prizes in Economics to behavioral economists (and a psychologist) in recent years suggest that the field warrants serious attention. However, as of now, the published literature on wine and economics seems to contain little research from the field.

Interestingly, a number of studies of consumer behavior and attitudes toward wine could be interpreted as applications of behavioral economics (eg., Galizzi (2005), Giraud-Heraud (various years), Goldstein (2008)), but they are often not presented as behavioral economics research. It should not be surprising that contributions from the wine marketing literature sometimes overlap with behavioral economics, perhaps without realizing it.

During its 2016 annual conference in Bordeaux, Ashenfelter highlighted two areas where he believed wine economics would be most likely to make distinctive contributions as a field: (1) "the fundamentals" (taken to mean themes arising from traditional economics such as the theory of the firm, consumer theory, investment theory) and (2) the role of experts. Thinking Fast and Slow (2011) by Daniel Kahneman, the psychologist who won the Nobel in Economics, discusses a variety of behavioral phenomena that challenge the conventional view of economic rationality and that can be applied to (a) one's own wine appreciation and formation of willingness to pay (WTP) and (b) the challenge of communicating about wine. These are two areas that fall broadly within the context of the role of experts or what one might characterize as the wine consumer's problem.

This research discusses some of the concepts from Kahneman's book most relevant to wine economics. For

example, the cognitive bias from “framing” can affect consumer reactions to buying opportunities (e.g., the order in which wines are presented in a wine list, the organization of wines in a wine shop). Consumer theory disregards such effects—for a given information set, its ordering should not affect WTP—but the impact of framing suggests otherwise. The “anchoring effect” describes another cognitive bias in which information presented earlier (or somehow more prominently) has an inordinate influence upon decision making. For example, evidence from fine wine auctions suggests that pre-sale estimates may have an effect upon winning bids in fine wine auctions independent of the characteristics of a given lot (Marks and Welsch 2015). One can imagine that the use of attention-getting “shelf talkers” containing expert ratings or compelling tasting notes in wine merchandising might bias even a fully informed consumers’ WTP and purchasing decisions.

The focus of much of behavioral economics has been finance and investor behavior. For example, the “endowment effect” (e.g., Thaler 1980) characterizes an asymmetry between one’s valuation of an asset, depending upon whether or not one owns it—another departure from standard view of economic rationality. One of Kahneman’s illustrations of the phenomenon is an economist wine collector’s significant difference in valuation between what he would pay for a fine wine and the lowest price for which he would sell it.

Given the widespread interest in the relationship between expert ratings and wine prices, the phenomenon of “Meehl patterns” challenges the value of expert opinion in conveying knowledge of fine wine. Relatively simple statistical algorithms consistently dominate expert opinions and predictions in a variety of “low-validity” environments where accurate prediction is difficult, including fine wine valuation. Kahneman contrasts expert ratings with Ashenfelter’s weather equation for predicting Bordeaux prices as an example.

Beyond the variety of challenges to our model of economic rationality noted above, the discussion addresses the differences between Kahneman’s two general types of thinking—System 1 (“fast”) and System 2 (“slow”)—and their application to differences in wine consumer behavior suggested, for example, by the categories of consumers found in the Constellation Brands Genome Project (Veseth 2008). Part of this discussion is the different roles that expert opinion might play in the two ways of thinking—perhaps misleading in System 1 thinking, perhaps substantively more useful for System 2 thinking and thereby helpful indirectly in System 1 thinking.

One difficulty with Kahneman’s discussion of the thinking process is that it lacks a coherent and comprehensive model of mental processes in the sense that economists feel that they have a coherent model of rational behavior, albeit one that continues to evolve as behavioral research questions its assumptions. He discusses a variety of “irrational” tendencies, but one searches in vain for a unified model of thinking of which they are examples. Perhaps that is not surprising since the existence of such a model would go a long way in settling the ongoing quest to harness and operationalize artificial intelligence.

Beyond Kahneman and related research, the discussion considers other research from neuroscience which draws connections between cognitive “appreciation” and imagination and rationality—for example, Kandel’s recent work on the brain and art appreciation *Reductionism in Art and Brain Science* (2016). Kandel challenges the perceived differences between another version of two ways of thinking—sciences and the humanities—and shows that “abstract artists often achieve their goals by employing methodologies similar to those used by scientists” (p. 4). He elucidates how we move from looking to seeing and appreciation and critiques the meaning and role of the art expert in that process. Included also is consideration of neurobiologist Gordon Shepherd’s work *Neurogastronomy* (2012) whose subject is “the human brain flavor system, perhaps the most extensive behavioral system in the brain, creating perceptions, emotions, memories, consciousness, language, and decisions, all centered on flavor”. (p. iv) His analysis moves beyond the scientific basis for experiencing flavor to our evaluation and appreciation of flavors, including wine.

Two themes of particular importance in all of these works of the significant roles of language and, especially, memory in affecting decision making.

The discussion closes with an assessment of the value of these disparate approaches to cognitive processes to our understanding of wine consumer decisions and the circumstances under which expert opinion can and perhaps should have an influence.