

## 5 Making Consumption Decisions by following Personal Rules

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In a vocal uproar, consumers protested against Amazon.com's strategy to price discriminate by charging their loyal customers higher prices, thereby extracting greater profits (Rosencrance 2000). Prior to this, the giant online retailer realized, as many others, that some consumers (e.g., its loyal customer base) were willing to pay a higher premium than other consumers. Following a simple economic logic, Amazon.com charged these consumers higher prices. Alas, when consumers found out about this strategy they became enraged: "no company *should* charge different consumers different prices" was a common cry. Two interesting and important facts stand out in this story. The first is that Amazon.com's strategy is on many counts equivalent to other price discrimination approaches commonly used, including the very popular targeted coupon campaigns employed by most retailers on and off line. The second, and central to this work, is the use of the term "should" in the consumer outcry above.

Another example relating to perceived violation of fairness is the Coca Cola Company's attempt to price discriminate based on the momentary value of the drink to the individual. It was obvious to the company that consumers derive greater pleasure from drinking a cold can of Coke on a warm day than on a cold one. Simple economic logic dictates that consumers would therefore be willing to pay more for Coke on a warm day than they would on a cold day. To take advantage of this insight, Coke

conducted a test in which temperature gauges were installed in vending machines to enable the machines to react to local weather conditions and change the price accordingly. Needless to say, the mere rumors about this made consumers furious. It wasn't that they didn't enjoy a cold Coke more on a warm day, but they simply felt they should not be charged more money for the same can of Coke; the company should not take advantage of them (King & Narayandas 2000).

The central argument in the current chapter is that our consumption reality is full of “shoulds” and “should nots,” some of which are derived from higher principles, e.g. fairness, as in the example above, some others from social and cultural norms, and some from personally relevant experiences. In this chapter we present a mechanism consumers employ when making decisions—following rules. Following rules is a decision approach that is different from the attempt to optimally solve a decision problem or use close-enough shortcuts (i.e., heuristics) that are common in the traditional decision analytical framework. Instead, the rules we propose as a decision making mechanism are much more similar to legal rules used in the justice system. In what follows, we describe what we mean by the term *rules*, why we chose this term, its various sources, and important characteristics that differentiate rules from other decision making mechanisms. We also discuss implications and future direction of inquiry.

### **Why “rules”?**

Imagine Tom, a middle-aged writer, who has to decide whether to go see the new Lord of the Rings movie at the premiere, or wait a couple of weeks, read the reviews, and

then decide whether or not to go. There are several paths Tom may take in order to make his choice. He may toss a coin, and go to the movie if it lands on heads; he may sit and write down the balance of reasons for and against going; he may decide to shortcut this process by only thinking of the first reason that comes to mind; or he may realize that he is generally against postponing positive experiences, and simply go. By taking the last route, Tom is essentially excluding the balance of reasons, and acting upon a preexisting rule. It is exactly this process of an exclusionary nature that we define here as following rules (Raz 1975).

We are not the first to import the notion of rules into decision making. Following a substantial treatment in philosophy, Prelec (1991; see also Ainslie 1992; March 1994; Baron 1994) suggested a decision making style that is independent from tastes or preferences, but is akin to the use of legal rules in matters of self-control and identity maintenance. In the context of Tom's decision above, such a rule may come into play if he asks himself whether he is the type of person who would rush to a premiere without hearing what the critics have to say, or whether he is the type of person who values movie premieres.

The rules discussed here are derived from higher-order principles that are acquired via moral or social context<sup>1</sup>; but such principles, unlike rules, typically do not provide in and of themselves direct action prescriptions for what actions to take and what to avoid. The "decisions by rules" perspective presented here is related to two other theories of individual decision making: reason-based choice and heuristics. In this section, we discuss the relationship of the rules mechanism to these two theories.

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<sup>1</sup> Social norms stand for many behavioral guidance mechanisms. Many of them are principles that require additional instructions to guide specific behavior (e.g., be nice). However, some social norms are actually specific rules (e.g., display a flag on Independence-Day).

According to the reason-based choice view (Shafir et al. 1993; Simonson 1989), people rely on reasons to justify choices, especially in the face of conflict, and sometimes even search for them when the reasons are not obvious – “people search for a compelling rationale for choosing one alternative over another.” While reasons and rules can be considered close relatives, there are some important differences. Perhaps the most prominent is the following hierarchical asymmetry: rules can provide reasons and function as reasons, but reasons seldom become rules (but see Raz, 1975 for an in depth discussion on a hierarchy of reasons, some of which may be used as rules as defined in the current context). A more central difference lies in the hypothesized process: we propose that rules are used on the fly and usually at a low level of thoughtfulness, while most analyses of reason-based choice envision an elaborate process of weighing and comparing reasons for and against each available choice alternative (sometimes even after the choice has been made).

When we compare “heuristics” and “decisions by rules,” it is clear that although these two mechanisms share some commonalities, there are some important differences. The first difference concerns the goal of using heuristics versus rules. Decision makers use heuristic procedures to limit the amount of information processed or the complexity of the ways in which information inputs are combined (Frederick 2002). As such, heuristics are useful for simplifying computations under uncertainty, when cognitive resources are scarce, or when full computation is infeasible. Heuristics such as elimination by aspect (Tversky 1972) and representativeness (Kahneman & Tversky 1982) are examples of such mechanisms. In contrast, the rules we discuss here are different because they do not describe a computational or evaluative approach.

These rules provide “do and don’t do” action plans that are not meant to simplify decisions but rather to enforce certain conventions.

The second difference between heuristics and rules relates to preferences. Many heuristics are said to “work” at the service of preferences – aimed at maximizing the latter under a certain set of constraints (cost of thinking, time, effort, etc.). There are multiple examples of such heuristic-based tradeoffs, perhaps the most notable one being the accuracy-effort tradeoff framework (Payne et al. 1993). Rules, however, are not related to a sacrifice of utility for the purpose of local effort-benefits considerations. For example, consider a choice between an option that is a “better deal” (e.g., two products cost the same, but one had a higher original price) and one that provides higher personal utility (e.g., the product that is liked more). Under such conditions, Hsee (1999) has demonstrated that people are more likely to choose the “better deal” option, thereby implying that they follow the “value seeking” rule rather than their own preferences (for a detailed treatment of this rule, see Hsee 1999; Hsee et al. 2003).

By their nature, rules are used for guiding decision making even when the complexity of the task is trivial, and when there are no repercussions for *not* doing so (i.e., rules are often followed even in situations in which one does not stand to lose or suffer if the rule is not obeyed). Moreover, unlike people’s preferences, these rules are assumed to be general, overarching guidelines for behavior and as such are applied broadly in a law-like manner – “do or do not do.”<sup>2</sup> To define more precisely what a rule means, Raz (1975: 497) proposes a test of whether a behavioral guideline is a rule by identifying its overarching nature and seldom questioned validity:

“[By following a rule] What I am not doing is assessing the merits of

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<sup>2</sup> Hence the term “rules,” as defining:  $x$  should [not] do  $y$  in situation  $S$  (Raz, 1975).

the case taking all the relevant facts into consideration. I am not doing this for I have decided on a rule, that is, I have accepted an exclusionary reason to guide my behavior in such cases. I may occasionally, of course, examine the justification of the rule itself. If I re-examine the rule on every occasion to which it applies, however, then it is not a rule which I have adopted. I may on the other hand examine the rule occasionally even when not confronted with a case to which it applies. This is the test by which to determine whether a person follows a rule.”

### ***The legal system and rules***

One can obtain a different perspective on the “decision by rules” approach by tracing its evolutionary development. From this perspective, it is perhaps not a coincidence that the “decisions by rules” decision-making style has evolved, for it relies on principles similar to those that have guided the social evolution of legal systems. In other words, while the decision analytical perspective has developed outside of the natural ways in which social institutions have evolved, decisions by rules more closely resemble the natural development of human thought regarding decisions over the ages. Even a superficial analysis of the development of the legal system suggests that the current approach has improved and developed over the centuries. Primitive legal systems, such as the early Roman and English systems, evolved through ritual stages, in which blood feuds between clans were superseded as dispute resolution mechanisms by the judgments of monarch kings and patrician priests, who formalized rituals, invoking memorized rules to reduce violent episodes (Maine 1861; Gray 1997). Although rituals included processes that today seem unfair and arbitrary, by the move to a ritualized customary decision institution, the conception of law as a body of rules was born. Initially, trials by ordeal efficiently determined guilt or innocence by simple tests such as whether the accused would float when thrown into the local river. Later, the transition to

the common law stage was characterized by the replacement of arbitrary local decision-making and divine intervention with written law, applied universally by a professional judiciary.

A further development, and perhaps the greatest evolution for this institution, was the use of analogical reasoning and precedents, allowing broader application of legal principles to particular contexts (Gray 1997). This development brings us to the current day system where the institution of a judicial equity system allows the override of mechanical or strict adherence to certain results. If we take the current characteristics of the legal system as an advanced evolutionary state and try to apply these characteristics to the domain of individuals using rules for decision making, two main principles emerge: memory and consciousness. Memory creates a dependency on past judgments and a set of easily prescribed paths for decisions in a variety of different cases. This is where precedents get their force and where early repeated behavior gets imprinted on future behaviors. Notwithstanding, consciousness allows us in some cases to override the prescribed path of behavior when the situation calls for a different set of decisions, albeit at the cost of extra consideration and deliberation. We return to these two important characteristics, invocation and override, when we describe empirical tests for the decisions-by-rules mechanism itself.

### ***The possible downside of following rules***

One consequence of the broad application of rules to different activities is that there are circumstances for which the rules are not suited and yet they are applied (as with many legal systems), resulting in actions that can at times be disassociated from preferences.

For example, consider stopping and waiting at a red traffic light in an abandoned street in the middle of the night, with no apparent other traffic. According to some, it is by the very definition of rules that they exclude a set of considerations that may, at times, prove to be the right set of inputs to apply to the decision at hand (Raz 1975). As another example, suppose a person immensely enjoys smelling the fresh air in the park on his or her way to work, and even mentions this to coworkers every day. And suppose that a young entrepreneur overhears this information, and convinces city hall to start charging one cent for passage through the park when the flowers are in bloom. It is very likely that the protagonist will refuse to pay merely because this person does not believe that one should have to pay for a breath of fresh air, even though it is worth much more than one cent to him or her in terms of the happiness it brings to that individual's life. In this example, the protagonist's belief in the invalidity of the payment request functions as a rule in the person's decision. Nevertheless, using the rule can rob that person of valuable happiness. Note that we are not claiming that this individual is unable to comprehend the value of this experience—only that he or she is unwilling to directly pay for it. Indeed, if the same payment was to be framed differently, for example as a donation to the city park services, the same person might be willing to provide much more to ensure continued enjoyment from the fresh flowers.

It is important to understand that we emphasize the negative aspects of using rules only as a method to identify the mechanism. If the predictions of rule-use and preference maximization would have been identical, we would not have been able to tell the two apart. The mechanism of following rules has many personal and social advantages, and one should not mistake this chapter for saying otherwise!



In summary, theoretical views in psychology, philosophy, and decision making (e.g., Prelec 1991; Baron 1994; Ainslie 1992; March 1994; Habermas 1999) suggest an additional mechanism for decisions and another reason for the inconsistency often observed between preferences and actions (e.g., Tversky & Simonson 1993; Fredrick 2002; Fischhoff 1991)—the use of decision rules.<sup>3</sup>

### ***Rules in daily decisions***

Decision rules can be based on personal, social, cultural, or moral conventions. Growing up in different cultures, or subcultures, is likely to teach individuals different “causal schemata” of the stimulus-response relations in their environment (Nisbet & Wilson 1977; Schwartz 1977; Gilbert 1995; see also Raz 1975). Some rules can be learned from personal experience (e.g., don’t tell one’s spouse dinner is not good; set a personal deadline one day before the actual deadline; hide an extra key in the garden), while others can be based on social, cultural, and moral conventions one does not need to experience in order to learn (e.g., one should not steal; paying for sex is not a decent relationship; some offers are unfair). Thus, because these rules are learned and may be socially constructed they are also unlikely to be universal, and the specific rules that are applied by different individuals in different circumstances would almost certainly depend on individual, social, and cultural factors.

One outcome of the social construction of rules as decision mechanisms is that

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<sup>3</sup> A great deal of discourse in moral and legal philosophy is devoted to the overlap, hierarchy, and boundaries of a myriad of terms describing behavioral guidelines, such as rules, principles, norms, rationales, morals, and so forth. The locus of distinctions between such terms lies in the [superhuman] ability to identify the source, relevance, and distinct implications of each one, contrast, compare, and finally choose the correct manner of thought and action that follow from that choice (See for example, Dworkin’s “Judge Hercules” in Habermas 1996). In this work, the use of the term “rules” refers to a general underlying mechanism whereby people choose according to what they think they ought to do, and these “oughts” arise when a situational cue invokes them.

individuals may “drift” into following rules gradually over a period of time without ever consciously deciding to do so, and without being aware that they started adopting the use of a rule. In the terms of Kahneman & Fredrick (2003), “system-2” processes are automated to become “system-1”:

“A person may, however, come to follow a rule without having decided to do so. He may have been brought up from early childhood to believe in the validity of the rule and to respect it. He may have drifted into following the rule as an adult gradually over a period of time without ever really making up his mind to do so.” (Raz 1975: 497)

As an example of such rules and also of the arbitrariness of their boundaries consider the distinction among the four meta-schemas of social order suggested by Fiske’s theory of human sociability (1992). In this theory, the four forms of sociality (communal sharing, authority ranking, equality matching, and market pricing relations) define four distinct sets of courses of action that are admissible and inadmissible behaviors and trade-offs. As an example of an unacceptable rule of conduct within a specific social order, consider the likelihood that after a fabulous meal at your mother in-law’s you would take out your checkbook and ask how much you owe her for this dinner (for the ingredients and for her time). While this exchange would be unacceptable for most people, other exchanges would be appropriate in this case (e.g., painting your mother in-law’s garage, fixing her deck, giving her a gift, etc.). This example illustrates not only the rules and how they can apply differently for the same person in their different social schemas, but also the arbitrariness of the exchange relationships that are acceptable and unacceptable within the different social schemas.

Another aspect of rules in everyday life relates to personal rules regarding desirable and undesirable behavior as a source of self-control. Based on views of 18<sup>th</sup>

century thinkers and focusing on issues of self-control, Ainslie (1992) argues that as a child develops, she consciously or unconsciously learns a general precept, such as “maintain health” or “be good”, effectively uniting actions under a common rule towards a desired end. Such grouping of choices serves as the building blocks of one’s willpower. This learned aspect of rules, differentiates them from preference-based mechanisms (preferences can be either learned or endowed), and deserves further emphasis. Several other theorists have also argued that personal rules are the predominant mechanism for pre-commitment against follies of self-control (Prelec 1991; Ainslie 1992; Raz 1975). In these cases, rules may be conscious and self-generated in order to dictate future behavior and avoid future conflicts. For example, an ex-smoker may create a rule that prevents him or her from even an occasional, seemingly harmless, taste of a friend’s cigarette for fear of increasing his or her own urge to smoke.

### ***Theoretical summary***

In summary, the rules that are the focus of the current chapter are analogues to legal or moral rules in that they are not binding constraints on behavior, but instead form guiding principles that are not always explicitly considered. We further propose that because these rules only form virtual constraints on decisions, they will be followed most frequently when they are strongly invoked, when decisions are made mindlessly (Langer 1989), when there is little experience in the domain, or when the rules are acquired via non-personal (social) experience (Reagan & Fazio 1977). Moreover, because rules are general in nature, behaviors that are guided by them will not always

match optimizations according to preferences, and following rules could come at the expense of local personal utility.

Therefore, while there is no question that internal states (i.e., attitudes and preferences) are commonly used as inputs for consumers' decisions, the two main general claims of this chapter are that in cases where there is a feeling of "the right thing to do":

- (1) When a rule is invoked, unless it is overridden, individuals will follow the rule in a "moral-like" fashion instead of basing their decisions on their preferences.
- (2) The rules individuals follow can sometimes be invoked in situations that undermine preference maximization, leading to choices that provide lower consumption utility.

In the following sections, we will describe evidence supporting the rules-based mechanism by examining these specific claims. The first claim involves three components: invocation (activation), override (ignoring the rule), and the distinctiveness of rule-based decision making from preference-based decision making. The second claim involves examining disassociations between preferences and decisions. Note, however, that investigation of the second claim is more complex: it requires searching for instances where rule-based choice negates preference maximization. Because of this requirement we will focus the entire discussion of support for the rules-based mechanism on cases where maximizing preferences implies choosing one outcome, yet following a rule dictates making a different choice. But we note that there are most likely many cases in which rules would lead to the same choice outcomes as preferences, but

these are obviously situations where it is hard to distinguish one decision mechanism from another.

### **Rule Activation**

The activation of personal rules is likely to be defined not only by social and cultural context, but also by the local context of the task (March 1994). For example, Fiske and Tetlock (1997) suggest that one can overcome one such type of rules, emerging from taboo tradeoffs, by obfuscating the tradeoff (i.e., hiding the invoking cue), and reframing the decision task in more comparable terms. When tasks are reframed, binding norms or decision rules are not invoked, making their violation easier (see also Ratner & Miller 2001, Experiment 4). For example, although it is not considered appropriate to pay with cash for a dinner one is invited to, it is acceptable (and even recommended) to “pay” back the hosts with a gift such as wine or flowers. The key here is attention to the appropriateness and applicability of the rules (Ainslie 1992). When attention is directed at a rule, it will be followed. On the other hand, in cases where attention is not directed at a rule, it will not be invoked and thus not followed. For example, Amir & Ariely (2004) find that consumers are likely to prefer a slightly delayed concert over an immediate one, because of the added benefit of savoring, and are also willing to exert more effort (driving time to get a ticket) to gain access to the delayed concert than to the immediate one. However, in contrast to this behavior, they find that consumers are willing to pay more for the immediate concert, because they have a rule opposing payment for delay. Amir & Ariely (2004) discuss this pattern of behavior in the context of a rule consumers follow whereby it is not acceptable to pay more for a delayed positive event. One of the

interesting aspects of this example is that when the cost (payment) is framed in units of effort, this does not invoke the rule, but when the cost (payment) is framed in monetary terms the rule is invoked.

This sensitivity of behavior to the invoking cue (money in the case above) demonstrates the sensitivity of rules to the exact set of circumstances under which the judgment is made. Indeed, it has been suggested that the effect framing has on the activation of social norms may lie in focus of attention (Cialdini et al. 1991). When attention is focused on a particular norm as a standard for behavior, rules are likely to influence behavior, whereas when attention is not directed at a rule, following one's preference is likely to take precedence over following rules. The framing and attentional aspects of the activation of rules also implies that their activation is in many cases implicit, which renders their invocation exogenous. The exogenous activation means that manipulations such as differential framing of the same situation will determine whether the rule is invoked or not, which in turn will determine the reliance on the rule as a guiding principal for behavior. For example, Amir & Ariely (2004) find that whether or not consumers prefer to go to a high-end store and pay a premium for the service depends greatly on whether the premium is presented as a general price increase or whether this increase is associated directly with the service in the store. Specifically, when the service is bundled with the price of the product itself (e.g., a TV is more expensive in a good-service store compared to the same TV at an average-service store) consumers are much more likely to pay the service premium. On the other hand when the same price premium was defined as being an explicit payment for service, the pattern reversed and most consumers found this store to be less desirable. In other

words, much like the cases with obfuscating taboo tradeoffs, consumers were not willing to pay directly for service but where willing to pay for it when it was a part of a bundle.

The rule invocation process that starts with the recognition of the exogenous situation may also be influenced by the decision maker's internal goals such as preserving a current identity or striving towards a desired one (March 1994). For example, a consumer might wonder what other consumers would do in similar situations or what someone they admire would do if in a similar situation.

### **Using Rules**

Certain aspects of using rules as a decision-making mechanism are distinct from plausible alternatives and therefore enable us to differentiate and identify the actual mechanism used in the decision making process. In this section, we will describe evidence supporting this conceptualization. We will first describe a case in which consumers' choices are disassociated from their preferences, and then provide evidence supporting a rule-based mechanism as opposed to alternative ones (e.g., preference maximization, the use of simplifying heuristics, or choosing based on the balance of reasons).

There are many cases in which consumers do not choose the most beneficial outcome: they could be making a mistake, their judgment could be biased, and so forth. In this section we would like to suggest that another mechanism responsible for such mistakes in choices (i.e., predicted happiness—decision inconsistencies) is rule following. For example, consumers often follow a “value-seeking” rule, which implies attaching a greater importance to some larger but not-consumable gain in value relative

to a smaller but consumable value. In everyday consumption settings, this translates, for example, to choosing a music CD that is liked less simply because its original (non-discounted) price was higher over a preferred CD whose original price was lower (Hsee et al. 1999). In this example, consumers are behaving as if they are in fact consuming the discount size rather than the CD!

Another example comes from the realm of negotiations, as depicted by the behavior of individuals playing ultimatum games. In this game there are two stages: in the first, one side makes a pie-dividing offer, and in the second, the other side decides whether to accept the offer or to reject it. If the offer is accepted, both sides receive their respective parts of the pie, and if not, both sides receive nothing. The theoretical best (equilibrium) strategy is for the first side to offer the minimal possible amount, and for the other side to accept any offer, as it has nothing to lose. The reality, however, is very different from theory; people hardly ever make low offers, and even when these offers are made, they are rarely accepted. In fact, pie distributions tend to be very close to the fair half-and-half divisions (see Roth 1995 for a review; Frederick 2002). Much like the Coke price discrimination example earlier, people refuse to accept a beneficial offer when it seems that this offer *should* not have been made.

Our third example has to do with intertemporal choice. As mentioned above, there are many experiences that we are better off having sooner rather than later (e.g., receiving the newest PDA), but there are some that are better a little later. The latter experiences usually are characterized by a strong component of savoring of their overall appeal (e.g., a concert by your favorite band, or receiving a kiss from your favorite movie star (Loewenstein 1987)). The question that arises, then, is whether individuals are



able to realize the exception to this generic case, and given this recognition, whether they would be willing to pay more for the more enjoyable, albeit delayed, experience. Based on the observation that there is only a small and exceptional set of experiences where delay of a positive experience is desirable, the strict rule-based perspective suggests that the rule that will be applied to these experiences will be the same as the rule applied to the large category of intertemporal choices, i.e., that it is not good to delay positive experiences. Thus, if individuals will not immediately recognize the value in delay, they will be willing to pay less for the delayed experience. The studies by Amir and Ariely (2004) show that when asked about which experience would provide them with more enjoyment (or which one they would drive further in order to secure) individuals are able to recognize without problems that the delayed experience is going to be associated with a higher level of enjoyment. Yet, when asked about payment, these same individuals indicated that they would pay less for these more pleasurable (delayed) experiences. Further, this payment pattern did not result from asymmetric market beliefs regarding which tickets should cost more and which should cost less. This example demonstrates that while individuals are able to recognize the value in delay, they are unwilling to pay more for these superior experiences. (As an intuitive example, consider whether you would be willing to pay Amazon to delay a shipment for a good you will enjoy anticipating).

The three examples presented here (deal seeking, altruism, and preference for delays) demonstrate cases in which there is a preference—action inconsistency. Yet, thus far we have not presented evidence that rule following indeed generated this inconsistency between preferences and choices. We will now describe additional

findings that differentiate rules from other mechanisms.

The first piece of evidence comes from one of the preference for delay experiments presented earlier, namely, showing that while individuals refused to pay more money for the delayed and more enjoyable experience, they were willing to invest more effort in order to do so. The fact that there was a disassociation between behavior and preferences, and that this disassociation appeared only when the payment form was monetary but not experiential, suggests that a rule is the decision mechanism that is involved, and that this rule is invoked by eliciting conventions regarding the use of money.

Another piece of evidence supporting the use of a rule-based mechanism pertains to individual differences. Because of the ways different rules come to be, various individuals may hold different rules, and even those who have the same rules may adhere to those rules to different degrees. Consequently, if some individuals are more likely to follow rules because of their personal propensity to do so, we should expect those same people to display greater discrepancies with their preferences in the situations mentioned above in which rules and preferences point in different directions. This pattern is precisely what Amir & Ariely (2004) found: individuals who were higher on personality traits that relate to adherence to rules showed a larger discrepancy between their preferences and their behaviors. These personality differences provide further, and perhaps the most direct, support for the distinction between rules on one hand and heuristics and normative, preference-based explanations on the other.

## **Rule Override**

A final aspect of the rules-based decision mechanism is the ability to override the rules. Rules are by definition overarching, such that if one examines the appropriateness of a rule on every occasion, then it is not a rule (Raz 1975). But our conceptualization leaves open the possibility of examining the adequacy of a rule from time to time and overriding it. This aspect of our theorizing also fits the legal metaphor since even judges examine the appropriateness and validity of rules every once in a while. When consumers wrongly apply a rule and reduce their overall happiness, as in the afore-mentioned cases, they could have been better off taking a moment to carefully consider whether applying the rule was the appropriate thing to do. For example, if consumers face a choice of payment for a delayed concert, instead of applying the rule against payment for delay they would be better off realizing that in this case there is value in postponement, i.e., the joy of savoring. Such consideration could arise from increasing the amount of time and attention individuals invest in making the decision, or from making the pleasure dimension more salient. Amir & Ariely (2004) tested these premises within the context of unwillingness to pay more for a delayed positive experience: participants were asked to either choose a concert date for which they would be willing to pay more or a concert date which would generate the greatest overall pleasure from two alternative dates (tonight or two weeks from tonight). Participants were either asked to respond to these questions with the first answer that comes to mind or to think carefully about their answer before responding. The findings indicate that, consistent with the rule-based decision making approach, when delivering an immediate response, participants were more likely to favor the delayed concert when considering their overall pleasure, and the immediate concert when considering their

willingness to pay. However, when carefully considering their response, participants were more likely to prefer the delayed concert in both types of questions (pleasure and money). These results suggest that where monetary responses are concerned, the application of rules is the immediate and primary reaction and that only with greater consideration can this first reaction be overridden such that decisions coincide more with preferences. This primacy of the rule is most likely based on automaticity and extensive experience with applying such rules to many situations over ones lifetime.

A conceptual replication using a very different manipulation revealed the same basic findings. In this case, the pleasure dimension was made more salient through the use of cognitive priming. Participants were first asked to describe pleasurable events, such as eating their favorite ice cream or having a full body massage, and then responded to the concert date choice question for overall happiness or willingness to pay. Consistent with the rule-based mechanism, its activation, and override, when the pleasure dimension was primed (and thus made more accessible), study participants were more likely to override the rule and choose the delayed concert even when asked about payment.

Again, manipulations of additional thinking or emotional priming should have little impact on preference—behavior inconsistency, according to the preference-based view of decisions (normative or heuristic). In contrast, the rules-based account of decisions proposed here assumes the ability to override rules as well as sensitivity to environmental conditions. Rule-based decisions therefore should be sensitive to these two manipulations and the results support the present viewpoint on human decision making.

## **General discussion**

Consumers make numerous decisions on a daily basis. Understanding the underlying mechanisms that drive the particular choices consumers make is invaluable. Our goal in this chapter was to argue and demonstrate that individuals sometimes make decisions according to preset rules and not their preferences, and that such a decision-making mechanism may lead them to make decisions that don't always maximize their consumption experience (utility). The general perspective on rules presented here is that these rules are overarching guidelines for behavior, that they are learned either from experience or from social exchange, and that they are followed almost blindly when invoked. The experimental evidence surveyed provides support for the decision by rules mechanism by showing that (1) when a rule is invoked and not overridden, instead of basing their decisions on preferences, consumers follow the rule; (2) rule following consequently can lead to situations in which consumers make decisions that are suboptimal in that they do not maximize consumption utility, and consumers do so even in cases where it is obvious which choice alternative is likely to be associated with higher overall pleasure; and (3) that such rules are invoked when consumers deal with tasks framed in monetary terms. In other words, mentioning money is often sufficient to invoke such rules.

We believe that this mechanism is of high importance because it suggests that consumers do not always engage in cost-benefit tradeoffs and in some cases prefer to not pay for things that are clearly preferred (which also means that market research based on preferences can be misleading in these cases). More broadly, understanding

the set of rules consumers employ may allow us to identify the missing link between cultural and social norms and actual decision behavior. By aligning consumer behavior with a systematic network of rules, we may be able to disentangle individual, social, and situational determinants of the consumer choice-making process. The rules-based mechanism has a particular appeal for marketers since the environment and the conditions under which individuals make decisions can be artificially changed to influence the application of rules, and the likelihood that they will be overridden. This aspect has obvious consequences since the market can shape rules and obfuscate the conditions that evoke and override the rules in ways that can either fit or undermine preferences.

In summary, the common view held by both marketers and decisions scientists is that individuals make decisions according to a set of preferences by searching for an optimum, a local optimum, or a close-enough estimate when exact algorithms are too costly. In contrast, in the current work we suggest that this view does not always hold and that decision makers sometimes do not try to consider the best alternative according to their preferences, but rather act upon pre-imposed decision-rules that are based on moral or social norms and on behavioral guidelines (see also Prelec 1991; Baron 1994; Ainslie 1992; March 1994; Hsee et al. 2003).

### ***Future research***

As this stream of research is relatively young, there is still much to learn. There is a set of questions one may ask about rules in general as decision-making mechanisms: What is the exact process by which rules emerge, and what are the individual and cultural

determinants by which consumers come to rely on specific rules in choice making (see also Fiske 1992; Fiske and Tetlock 1997)? Another general question concerns the ways in which individuals can overcome the rules, and instead use their preferences as a guide for their decisions. Regarding this question, it is possible that being mindful (see Langer, 1989) of the different rules might allow consumers to ignore them at the time of action or to pre-commit to ignoring them ex-ante. A third general question concerns the categorization of different rules. There is one category of rules that are used to enforce behavior on oneself (Ainslie 1992; Prelec 2003). Yet not all rules seem to fit this category. What other categories of rules exist? A fourth question concerns the effects of rule violation. IN discussing rules for self-control, Ainslie (1992) has argued that violating a rule can be a slippery slope to its demise, while Prelec (2003) believes that such violations can be highly informative to the decision maker about his or her own persona. In domains not related to self-control, rule violation might have yet other consequences.

A different approach to better understand rules-based decisions is by examining the workings of particular rules. For example, one can ask, how does a rule such as the one against paying for delay actually emerge? It is possible that this rule stems from a generalized desire for immediate gratification; from a developmental perspective, the human ability to anticipate develops at a later stage than the need for immediate gratification. And can people be trained to never activate a rule or perhaps to more quickly override it?

Finally, the results discussed here shed some light on the possible negative aspects of using money as an exchange medium. Although money is generally viewed

as a fabulous invention because it allows for better market exchanges, specialization etc., the results presented here also show that when it comes to monetary decisions, there is an increased propensity to activate rules, which might ultimately undermine preferences (see also Amir et al. 2004 regarding the psychology of monetary judgments). If this pattern holds across many domains, a higher reliance on barter and direct tradeoffs (or at least considering these explicitly when thinking about monetary exchanges) might lead to higher consumer welfare. The research surveyed in this chapter is only an initial step in understanding the interesting and important mechanism of decisions by rules. The generality of this mechanism and the applications for consumer decisions and welfare could be far reaching.

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