

Reason-Based Choice: A Bargaining Rationale for the Attraction and Compromise Effects*

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Abstract

Among the most important and robust violations of rationality are the attraction and the compromise effects. The compromise effect refers to the tendency of individuals to choose an intermediate option in a choice set, while the attraction effect refers to the tendency to choose an option that dominates some other options in the choice set. This paper argues that both effects may result from an individual's attempt to overcome the difficulty of making a choice in the absence of a single criterion for ranking the options. Moreover, we propose to view the resolution of this choice problem as a cooperative solution to an *intra*-personal bargaining problem among different selves of an individual, where each self represents a different criterion for choosing. We first identify a set of properties that characterize those choice correspondences that coincide with our bargaining solution, for some pair of preference relations. Second, we provide a revealed-preference foundation to our bargaining solution and characterize the extent to which these two preference relations can be uniquely identified.

Alternatively, our analysis may be reinterpreted as a study of (*inter*-personal) bilateral bargaining over a finite set of options. In that case, our results provide a new characterization, as well as testable implications, of an ordinal bargaining solution that has been previously discussed in the literature under the various names of fallback bargaining, unanimity compromise, Rawlsian arbitration rule and Kant-Rawls social compromise.

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