Narrowly Rational

Songfa Zhong, National University of Singapore

Abstract: The revealed preference analysis allows the inference of underlying preferences from observable choices, and numerous studies have shown that choice data are generally rationalizable by some utility function for the given settings. This study examines whether choice data can be rationalized across settings. In an experiment, we compare portfolio allocations in one setting between two equiprobable Arrow securities, and in another setting between one risk-free asset and one with risky asset that delivers either positive return or nothing with equal probability. We show that choice data is rationalizable within settings, but inconsistency is pervasive across settings. We further show that some heuristic rules may underpin the rationalizability of choice behaviour. Our study contributes to the literature on revealed preference analysis, rule-based decision making, and the nature of risk preferences.