Ambiguity Neglect and Policy Ineffectiveness when Agents have Constructed Preferences

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Abstract

When a policymaker introduces a novel policy, she will not know what the citizens’ preferences will be under the policy. In the face of novel policies, citizens themselves may have to construct their own preferences. Such preference construction imparts inherent ambiguity to novel policy implementation: the policymaker does not know the probability that citizens will select preferences that accord with the intent of her policy. A policymaker who assumes that citizens will follow a fixed approach may therefore be susceptible to ambiguity neglect, which can result in her policies having unintended consequences (UC). We provide examples of UC as well as a simple formalization. Our results suggest that before implementing novel policies, governments and policymakers should attempt to elicit preferences from the citizens who will be affected.

Keywords: Ambiguity Neglect; Constructed Preferences; Indeterminacy; Policy Ineffectiveness; Unintended Consequences

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