Altruistic Opportunity Cost Neglect (OCN)

# Related Terms

* N/A

# Description

* When making decisions, people often fail to take into consideration opportunity costs - the sacrificed benefits of alternatives to the option chosen. In donation decisions, people may fail to consider the altruistic opportunity cost of their donation - the sacrificed altruistic impact that could have been generated by donating to a different charity.

# Overview of Evidence

* There is evidence of OCN in consumer decisions (although less than one might expect given how well established the effect is considered to be). However, there is no evidence or examination of OCN in the domain of charitable giving. (One unpublished study done by a friend examines whether highlighting opportunity costs decreases donation behaviors, but the paper is forthcoming so we may or may not be able to discuss it).

# Conceptual Discussion

* OCN is distinct from segregation framing, as segregating the premium does not have the same effect as segregating the savings (Frederick et al., 2009)
* OCN is mediated by the degree to which outside alternatives come to mind (Frederick et al., 2009 - they claim it is shown by study 3)
* OCN is related to attention effects, see intro

# EG Relevance:

* Given that we have limited resources available to donate, most donations come with the opportunity cost of a donation to another charity. While many donations do *some* good, donating to a less effective charity means the money is doing less good than if it were instead donated to a more effective charity. Recognizing the altruistic opportunity cost of donating to ineffective charities is a necessary step towards refraining from making ineffective donations to instead making effective donations.

# State of Evidence:

## [Opportunity Cost Neglect](https://scholar.google.com/scholar_url?url=https://academic.oup.com/jcr/article-abstract/36/4/553/1787808&hl=en&sa=T&oi=gsb&ct=res&cd=0&d=1033556753544077278&ei=b79pW_acK47EmgHHwLD4DA&scisig=AAGBfm3NzSWlOAQyw7sS_tqQtyG_tJXm6Q)

Frederick, S., Novemsky, N., Wang, J., Dhar, R., & Nowlis, S. (2009). Opportunity cost neglect. *Journal of Consumer Research*, *36*(4), 553-561.

They find that drawing attention to opportunity costs of a purchase decreases willingness to purchase, and increases the portion of subjects buying a cheaper option. These effects did not go away even with forced deliberation, and seem to be caused by how much a description brings outside options to mind.

Study 1a examines a buy/no buy decision, and asks people whether they want to buy a DVD with either “Not Buy” or “Keep the $14.99 for other purchases.” They find that the “keep” condition decreases the frequency of purchasing. Studies 1b and 1c find that emphasizing the opportunity cost of buying more expensive items (e.g. emphasizing that buying the cheaper item will “leave you with $100 in cash) results in people buying more of the cheaper item.

Study 3 demonstrates that more people in the opportunity cost condition generate more thoughts about outside products (when asked to list reasons for/against buying each product). Study 4 found that priming subjects with a previous study that asks people to list other things they would like to buy for $20 is sufficient to increase attention to opportunity cost when deciding between two products with a $20 price difference.

## [Evidence for Opportunity Cost Neglect in the Poor](https://onlinelibrary.wiley.com/doi/epdf/10.1002/bdm.2041)

Plantinga, A., Krijnen, J. M., Zeelenberg, M., & Breugelmans, S. M. (2018). Evidence for opportunity cost neglect in the poor. *Journal of behavioral decision making*, *31*(1), 65-73.

They replicate the Frederick 2009 findings that increasing opportunity costs salience reduces willingness to purchase. However, they found no interaction effect between income and increasing opportunity cost salience.

## [Choices and opportunities: Another effect of framing on decisions](https://scholar.google.com/scholar_url?url=https://onlinelibrary.wiley.com/doi/abs/10.1002/(SICI)1099-0771(199809)11:3%253C211::AID-BDM298%253E3.0.CO%3B2-O&hl=en&sa=T&oi=gsb&ct=res&cd=0&d=17641603818612927296&ei=cLZpW-OMO47YmgG1z6pI&scisig=AAGBfm0q_zC7hyyx13IZeTLaBjGRdvjHhQ)

## Jones, S. K., Frisch, D., Yurak, T. J., & Kim, E. (1998). Choices and opportunities: Another effect of framing on decisions. *Journal of Behavioral Decision Making*, *11*(3), 211-226.

## [Opportunity Cost Neglect Attenuates the Effect of Choices on Preferences](https://scholar.google.com/scholar_url?url=http://journals.sagepub.com/doi/abs/10.1177/0956797615608267&hl=en&sa=T&oi=gsb&ct=res&cd=0&d=8111010004266705789&ei=Ab9pW834GpGGmgHto4rQCg&scisig=AAGBfm1RD-zBvjatIpnMu6ISELVjfOFizA)

Greenberg, A. E., & Spiller, S. A. (2016). Opportunity cost neglect attenuates the effect of choices on preferences. *Psychological science*, *27*(1), 103-113.

## Misbehaving?

By Thaler

## Opportunity Cost Charity Study?

By Hajdi

# Solutions

* Drawing attention to the opportunity costs may allow people to recognize the sacrificed potential impact
  + This has not yet been studied in the charitable giving domatin
  + However, this has been carried out in the realm of consumer purchases, and drawing attention to the opportunity cost did influence purchase decisions. (Frederick et al., 2009). Thus, it may also transfer to the ream of donation decisions.
* Can be done with priming in an unrelated domain (list all of the charities you could give to before making a charity decision)
* Can be done merely by saying “Don’t donate and save money to give to another charity”?
  + Shown by Frederick 2009’s intervention
  + Might have data on this from Tehila