

Q&A

1. Double-dichotomous-choice; how it work?

Ans. This is one of CV methods. The WTP is estimated from a survey in which respondents are asked whether they are willing to pay for the given 'bid price'. If the respondents say 'no,' then they are asked whether they are willing to pay for a lower bid price. If the respondents say 'yes', then they are asked whether they are willing to pay for a higher bid price.

2. Travel cost method; what it attempt to find? Is it want to find the consumer surplus of visitor which can be vary according to the admission fee?

Ans. Like other indirect methods based on observed behavior, TCM attempts to find WTP for the use of places, such as recreational site. It first tries to estimate the demand curve for visiting the site based on the 'opportunity cost' of the visitors. Then, based on the demand curve, we can calculate the consumer surplus. The idea is that we cannot use admission fee to indicate WTP because the fee would be equal across people, so there is no variation in WTP.

3. The distinction between the deaths of identifiable individuals and statistical deaths.

Ans. The value of life of an identifiable individual can be estimated from foregone earning of that particular person. It's usually used for lawsuits, and not for project evaluation or CBA.

The *value of a statistical life* (VSL) could be valued using the trade-off that people make between changes in fatality risk and wages (or payment purchases). The VSL needs to be calculated based on statistical information from a population. For example, if the probability of having a fatal accident reduces from 0.02% to 0.01% when wearing a helmet, and you are indifferent between buying a \$200 helmet and have lower probability of accident and not buying, then VSL can be estimated from: $V(\text{life}) = \$200/0.01\% = \$2,000,000$.

4. Value of information; what is the meaning of this statement "the value of information derives from the fact that it leads to different optimal decisions". Is it mean that the decisions need to be change from implement to not implement?

Ans. The value of information is the difference between the expected net benefits with additional information and the expected net benefits without additional information. The idea is

that additional information learned later by the decision makers could change the net benefit of each alternative. As a result, the optimal alternative may or may not change.

5. Can u explain again about the type of judgement bias?

Ans. Judgment bias occurs when we use CV because people are asked of hypothetical situations.

I explained 4 main biases in class:

1. *Noncommitment Bias*: Overstating one's WTP for a product because one does not actually have to pay for it. This can lead to significantly higher WTP values.
2. *Order Effect*: WTP depends on the order the questions are asked. Explanations for this include an income effect (if you express a positive WTP for an earlier good, you have less income to spend on later goods), or a substitution effect (you might substitute one similar project for another).
3. *Embedding Effects*: When people do not value large changes (in the quantity of a good) much more than small changes. It's argued that respondents are not expressing their valuations but broad moral attitudes to the issue (such as preserving the environment).
4. *Starting Point Bias* (i.e., anchoring): The final valuation is affected by the starting valuation.

Other judgment biases are: *availability bias* (individuals estimate the prob of events by the ease with which occurrences can be recalled); *representativeness* (individuals judge the prob of events as being higher as more details, which could be irrelevant, is added); *optimism bias* (people believe that they can beat the objective odds); *anchoring bias* (people do not fully update their prob assessment as new information becomes available); *hindsight bias* (individuals believe, after an event occurs, that it was more predictable than it actually was); *status quo bias* (individuals stick with status quo even though the benefits from changing are large).

6. Incentive compatible (sheet CV problem slide 32)

Ans. This issue is how researchers deal with strategic response problem. In order to avoid overstated WTP or understated WTP, the questions asked need to be incentive compatible. That is, it gives individuals incentives to truthfully reveal their preferences (and not to accept bid prices above their true WTP). Examples are asking what they are WTP for public goods that requires compulsory contributions.