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Importance of incentive compatibility in contingent valuation research

Project objectives/Research hypothesis

The proposed project addresses methodological issues related to modelling of consumer preferences and contingent valuation of non-market goods on the basis of stated preference research. Preference modelling is of high importance, both from a theoretical and practical point of view. It is one of key concepts used in the present microeconomics, as well as it has a broad practical application in valuation of different policies and goods that might be offered. In particular, it enables to determine optimal quantities and attributes of non-market goods to be delivered.

This research proposal undertakes the issue of incentive compatibility of surveys used in contingent valuation (CV), which belongs to the most commonly applied methods of consumer preference modelling. Incentive compatibility assures that providing a truthful answer to a question asked in a survey, i.e. in line with agent's personal preferences, constitutes an optimal strategy for the respondent. The problem of reliability of data obtained in stated preference research is an important matter raised in the current scientific discussion. Recently Carson and Groves (2007) have suggested necessary conditions for incentive compatibility of contingent valuation surveys. One of the conditions requires research consequentiality, which means that respondents need to perceive their responses as potentially influencing the final decision of the agency and moreover, they must care about the introduced solution.

The main aim of the proposed research project is to verify empirically the importance of the consequentiality requirement for ensuring incentive compatibility of contingent valuation methods on the basis of field studies, which will be conducted in typical conditions of application of CV methods. Research questions will concern the following issues, (1) how essential consequentiality of the research is,

(2) how important a binding character of survey results is in the perception of respondents and

(3) what role subjectively perceived consequentiality plays in comparison with objectively defined consequentiality. Obtained results will also enable to determine a scale of bias caused by the use of non-consequential surveys.