

HEURISTICS AND PREFERENCE MAXIMIZATION: AN AXIOMATIC APPROACH

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Abstract

In real life, decision-making is at least partly *heuristic*. For the limitation of cognitive capacity, human behaviors can have procedural aspects which are essentially different from the mechanism of preference maximization. To capture procedural aspects of decision-making, this paper axiomatizes a heuristic decision model. The key parts of the model are as follows: attributes of alternatives, reference points, and target points. By considering a target point, which is “ideal” in terms of attribute evaluation from the reference point, the decision maker chooses one option that is the most similar to the target point. The formal model of heuristic decision-making can be regarded as a formulation of “satisficing” principles. We discuss the relationship between our model and experimental evidence.

KEYWORDS: Bounded Rationality; Satisficing; Behavioral Economics; Preferences over Sets.

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