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FRANK, ROBERT H. (1945–)

Robert H. Frank is the Henrietta Johnson Louis Professor of Management and a Professor of Economics at Cornell University's Graduate School of Management. He was born in 1945, and his PhD in economics is from University of California Berkeley. Frank has been a Peace Corps volunteer in rural Nepal and chief economist for the Civil Aeronautics Board.

An important focus of Frank's research is status, status seeking, and why the race for status often causes collective action problems. In his book *Choosing the Right Pond* (1985), he discusses status as a motivator, people's willingness to pay for status, and why the race for status is bad for society as a whole, as there cannot be an improvement in the total status available, but only changes in relative status. In the *Winner-Take-All Society* (1995, with Philip J. Cook), he discusses the dramatic growth in income and wealth inequality which has caused some people (CEOs, popular musicians, star athletes), whose ability and contributions are only a little greater than others, to earn much more than others. In these winner-take-all markets, pay is according to relative performance, not absolute performance. Frank attributes this phenomenon to the modern structure of markets and technology.

In the *Darwin Economy* (2011), Frank discusses various ways in which the competition for status can cause markets to fail to harness individual self-interest to produce the greatest good for society as in Adam Smith's invisible hand metaphor. In many cases, Frank (2011, 7) indicates the market outcome resembles Darwinian "natural selection that favors traits or behaviors primarily according to their effect on individuals, not larger groups." In many cases, the selected mutations that help the individual can prove quite harmful to the larger group. This is "the expected result for mutations that confer advantage in head-to-head competition among members of the same species." An example is the outsized antlers of bull elk, a selected mutation that serves bull elks well in the competition among bulls for access to females but which made bull elks as a group less well off because of the disadvantages (especially relative to other species) of the heavy, bulky antlers. Analogously, the dependence of market "rewards on rank eliminates any presumption of harmony between individual and collective interests" (2011, 11). An important example is positional goods whose consumption generally confers a status advantage in comparison to nonpositional goods. The competition among people to consume positional goods often leads to expenditure cascades and poor market performance (poor collective outcomes), as there is too much positional consumption (expenditure on larger and larger mansions) and too little nonpositional consumption (expenditure on workplace safety).

Many behavioral economists have focused their research on "departures from rational choice with regret" in which people make systematic cognitive errors and then regret these decisions once they are aware of the error. In contrast, Frank has focused on the problematic decisions that people make but do not regret. He believes that "much bigger losses result from departures from rational choice without regret" (2011, x). This is because people "lack both the means and motive to alter behaviors . . . [they] don't regret" (2011, xi).

Frank's research has implications for policy, especially tax policy. His analysis leads him to forcefully advocate using taxes to discourage activities giving rise to collective action problems. His advocacy of a highly progressive consumption tax also follows from his analysis; this advocacy is not based on the usual fairness considerations, but rather on how individual choice causes collective harm.

John F. Tomer

See also: Bandwagon Effect; Duesenberry, James S.; Hedonic Treadmill; Metapreferences; Paternalism; Relative Income Effects

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Many management professors give much greater weight to empirical findings based on firm behavior and performance. An early summary of this can be seen in the revised edition of the Cyert and March book, published in 1992. In the epilogue, the authors stress bounded rationality, and what they term imperfect environmental matching and unresolved conflict, the latter seen in control theories of the firm. They also devote more attention to transaction cost economics, agency theory, evolutionary theories, and a variety of recent work by management specialists. This includes decision making as an intentional, consequential action; decision making as a rule-based action; the ecological structure of decision making (with emphasis on the interactive character of the phenomenon); and what they termed decision making as an artifice (as a symbol).

Hugh Schwartz

See also: Bounded Rationality; Decision Cost; Entrepreneurship; Evolutionary Economics; Gigerenzer, Gerd; Heuristics; Irrationality and Subrationality; Kahneman, Daniel; Leibenstein, Harvey; Profit Maximization and Behavioral Economics; Prospect Theory; Rationality (Process and Neoclassical); Subjective Expected Utility; Transaction Costs and Behavioral Economics; Tversky, Amos; Williamson, Oliver.

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FRAMING

The term framing refers to the various ways decision situations can be presented, resulting in markedly different representations of the same situation, and as a consequence leading to different choices. Tversky and Kahneman (1981) demonstrated preference reversals in the domain of risky decision making due to different problem wordings. In their original experimental setting people are confronted with two different options concerning a problem: one representing a sure option, and the other representing a risky prospect indexed by its possible outcomes and the probabilities attached to those outcomes. In both versions of the task they are informed that the United States is preparing for the outbreak of an unusual Asian disease, which is expected to kill 600 people. Two alternative programs to combat

the disease have been proposed. In the first version of the task participants have to choose between Program A, where 200 people will saved, and Program B, which is said to save all 600 people with a probability of 1/3 and save no one with a probability of 2/3. In the second version of the task subjects had to choose between Program C, where 400 people will die, and Program D, resulting in a chance of 1/3 that nobody will die complemented by a chance of 2/3 that all 600 people will die. In both frames the expected values of the sure and the risky options are equal, resulting in saving 200 and losing 400 citizens. Nevertheless, experimental evidence shows that in the positive frame (saving lives) the sure option is preferred by the vast majority, whereas in the negative frame (losing lives) the clear majority chooses the risky option.

Prospect theory developed by Kahneman and Tversky explains this effect by two of its main features, reference dependency and loss aversion. Thus, the reference point adopted depends on the wording of the choice problem. In the positive frame the outcomes are perceived as gains; in contrast, the outcomes in the negative frame are perceived as losses. Because people tend to be more risk seeking when confronted with potential losses, participants in the negatively framed condition prefer the risky alternative, whereas in the positive frame the sure option is predominantly chosen. The standard version of the Asian disease problem was frequently criticized because the sure options are not equal in description compared to the risky options. When it is stated that 200 people will be saved, it should be specified that the other 400 people will die, and *vice versa* in the sure option of the contrary version of the task. Kühberger (1995) was able to show that with full description of the alternatives no framing effect is observable. These results are explainable by the concept of Probabilistic Mental Models (Gigerenzer, Hoffrage, and Kleinbölting 1991), but pose a problem for Prospect Theory as well as other discussed explanations (Fuzzy-Trace Theory; Reyna and Brainerd 1991).

Generally speaking, the empirical evidence concerning framing effects is inconsistent. It seems especially hard to replicate it in a within-participants setting. In between-participants settings some studies fail to replicate the effect, while others confirm it. For instance, the framing effect was replicated in a management context, with regard to fairness evaluations and in the domain of medical decision making. Furthermore, in recent years framing effects are often used to promote healthy behavior in real-life decision making.

Erich Kirchler and Christoph Kogler

See also: Certainty Effect; Loss Aversion; Prospect Theory; Uncertainty Effect

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