

Lecture 3

A Theory of Consumer Choice

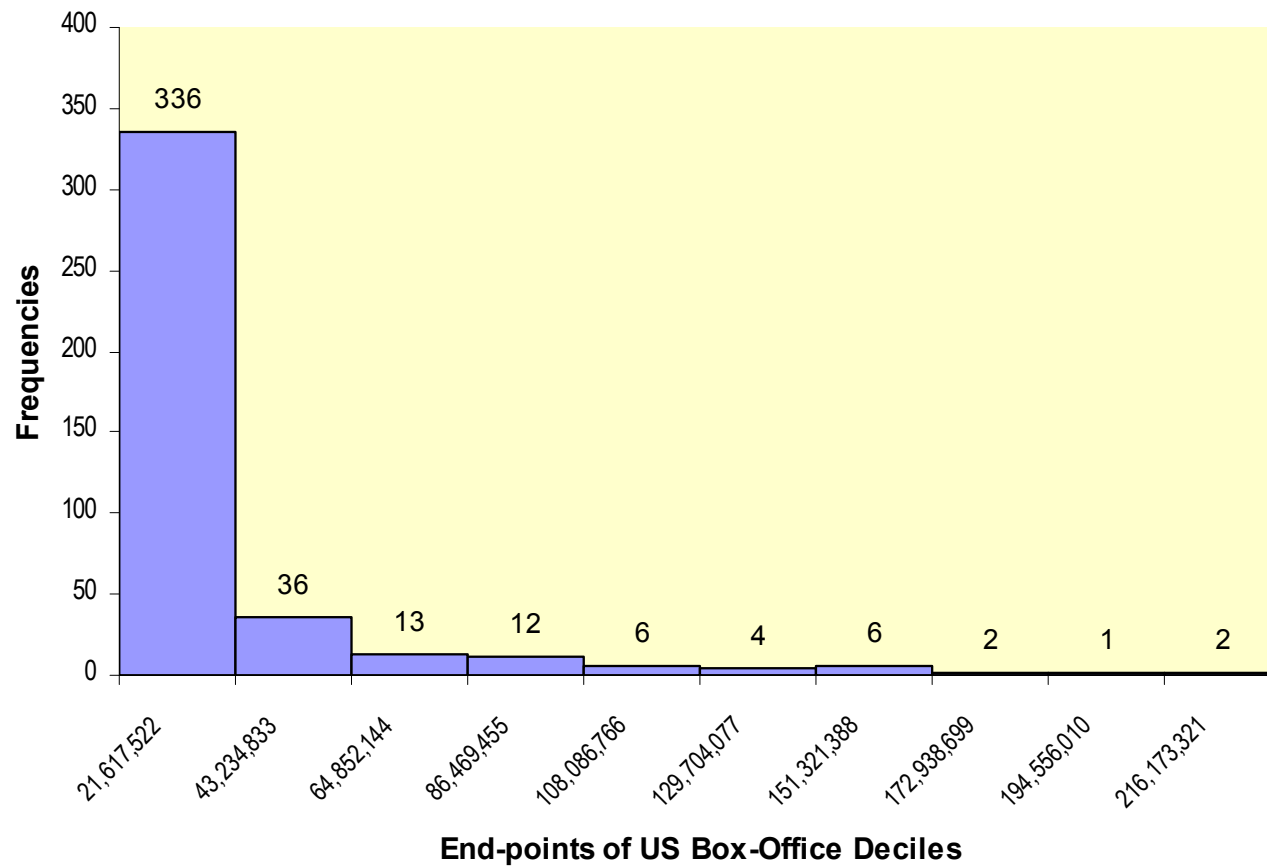
VPD

- This is an industry in which vertical product differentiation prevails.
- Producer/distributors are perpetually engaged in quality competition with rival producer/distributors.
- Film consumers in urban settings are faced with a wide number of films to choose between.

Stimulus

- This work has been stimulated by our discovery that the pattern of film demand that we identified during the 1930s in the UK and the US was more-or-less the same as that today.

Figure 1: US Decile Box-Office Classification of Films released in 1998.



Film budgets are not always
the best guide to quality

Figure 2: Scatter of Box-Office Revenues against Film Costs, 1987 Prices, 1988 to 1999

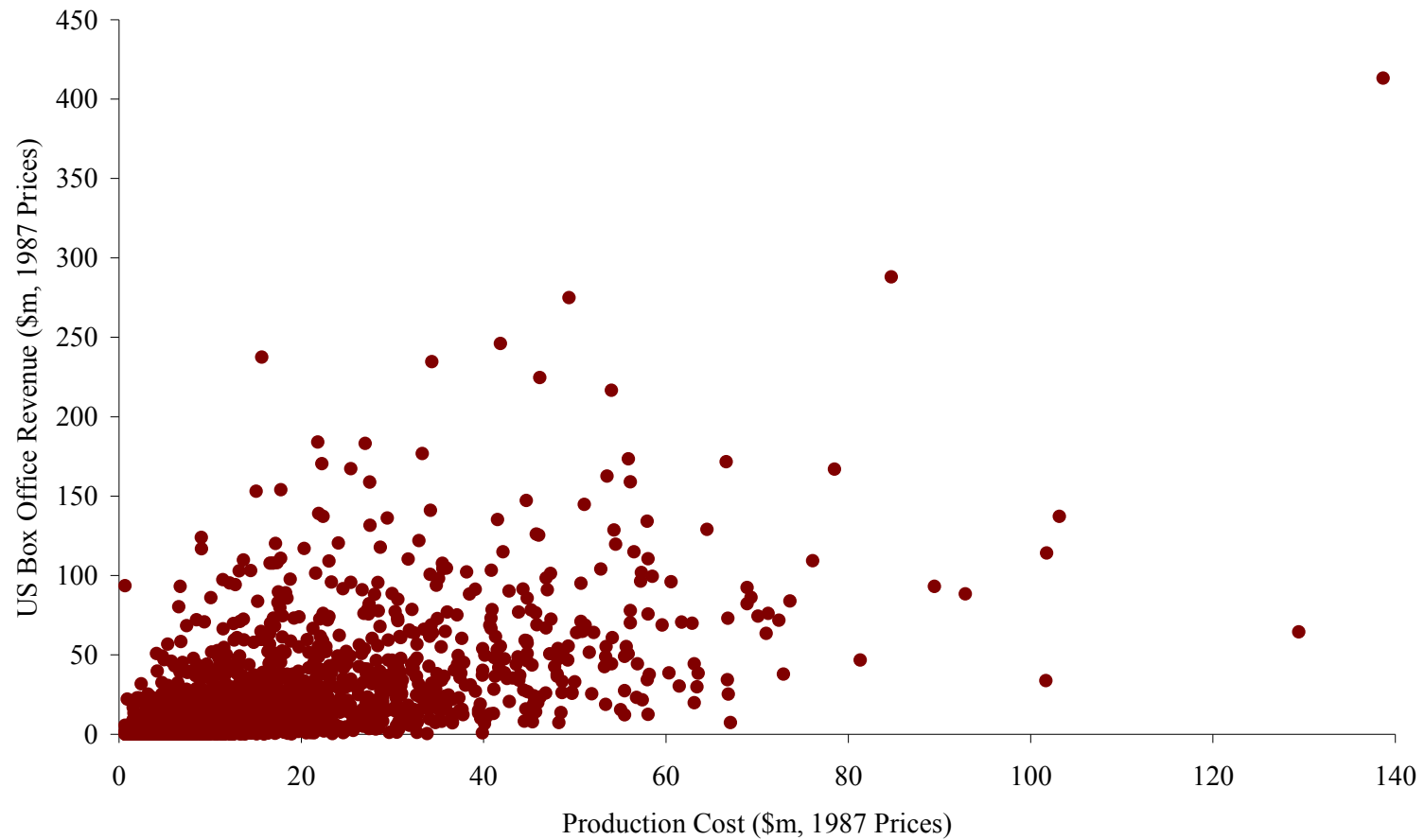
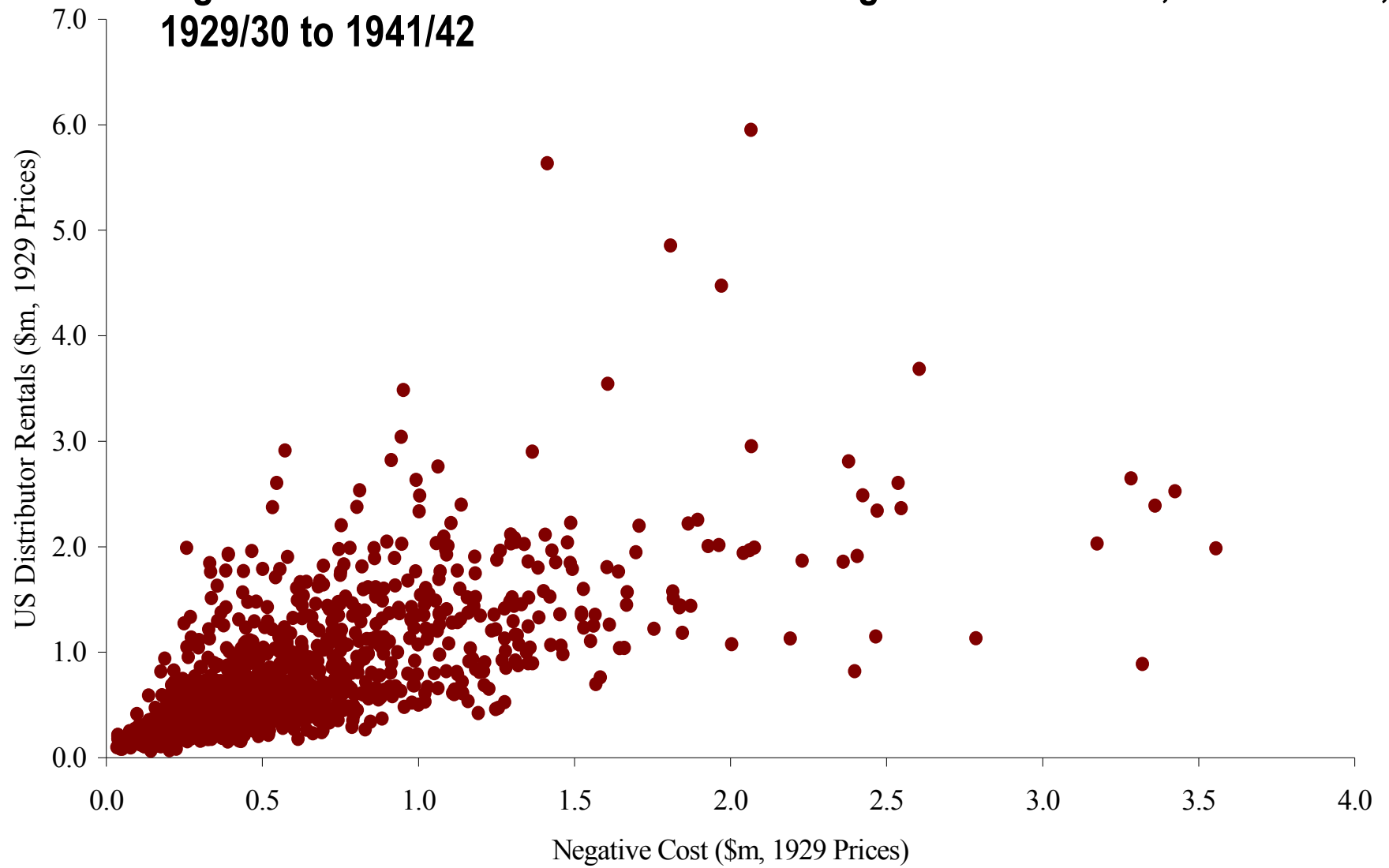


Figure 3: Scatter of Distributor Rentals against Film Costs, 1929 Prices, 1929/30 to 1941/42



Proposition 1

- Consumers of film build up a body of cinematographic experience over time, which they act upon in making decisions about what films to watch.

Proposition 2

- For a given consumer, the composition of this accumulation will be highlighted by the enduringly strong (and therefore continuingly influential in terms of decision making) emotional reactions, either positive or negative, that have been generated by films that were memorably distinctive for that consumer.

Proposition 3

- Such films stimulate consumers to form a series of markers (mental constructs) which they use for evaluative purposes when choosing what film(s) to watch. Markers enable consumers to form expectations

Proposition 4

- Although used as a heuristic device, markers cannot give a complete conception of a film prior to its being experienced, and are best thought of as supplementing, and perhaps modifying, a consumer's intuition. This is because films are made up of a highly complex and unique combination of sensory information consumed in the mind.

Proposition 5

- Because of this, consumers' judgments are prone to error, in that it is commonplace for realised cinematic utility to differ from expected cinematic utility. This difference is what we refer to as consumer risk.

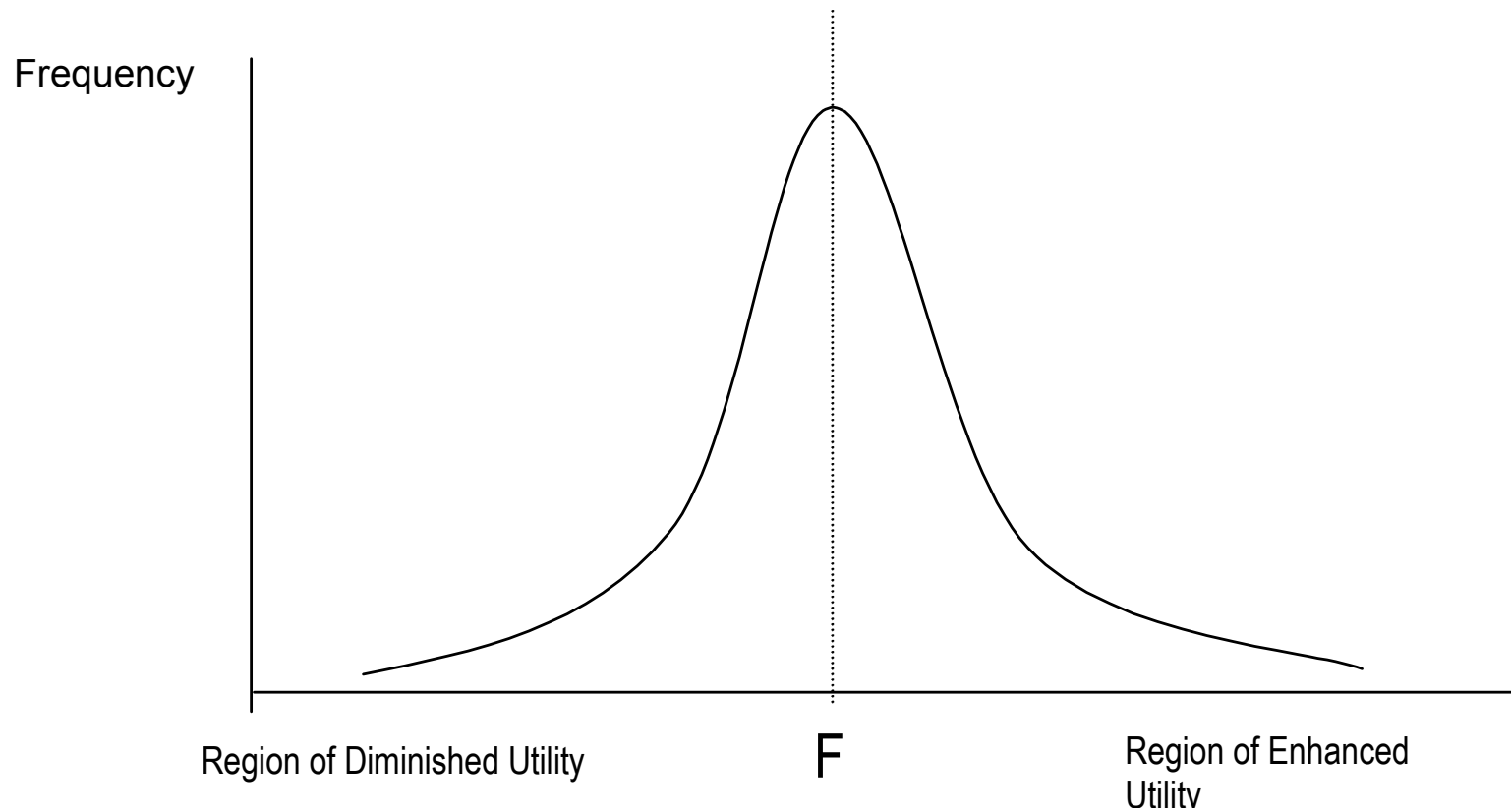
Proposition 6

- The accumulation of cinematic experience over a lifetime enables consumers to construct mentally a personal ledger of cinematic utility, and can be presented in the form of a frequency distribution of the difference between expected and realised utility.

Proposition 7

- Assuming a hypothesis that, for the most part, the body of cinematographic experience will comprise only small or moderate differences from what was expected (and therefore relatively few strong emotional reactions), it may be supposed that the distribution will be bell-shaped.

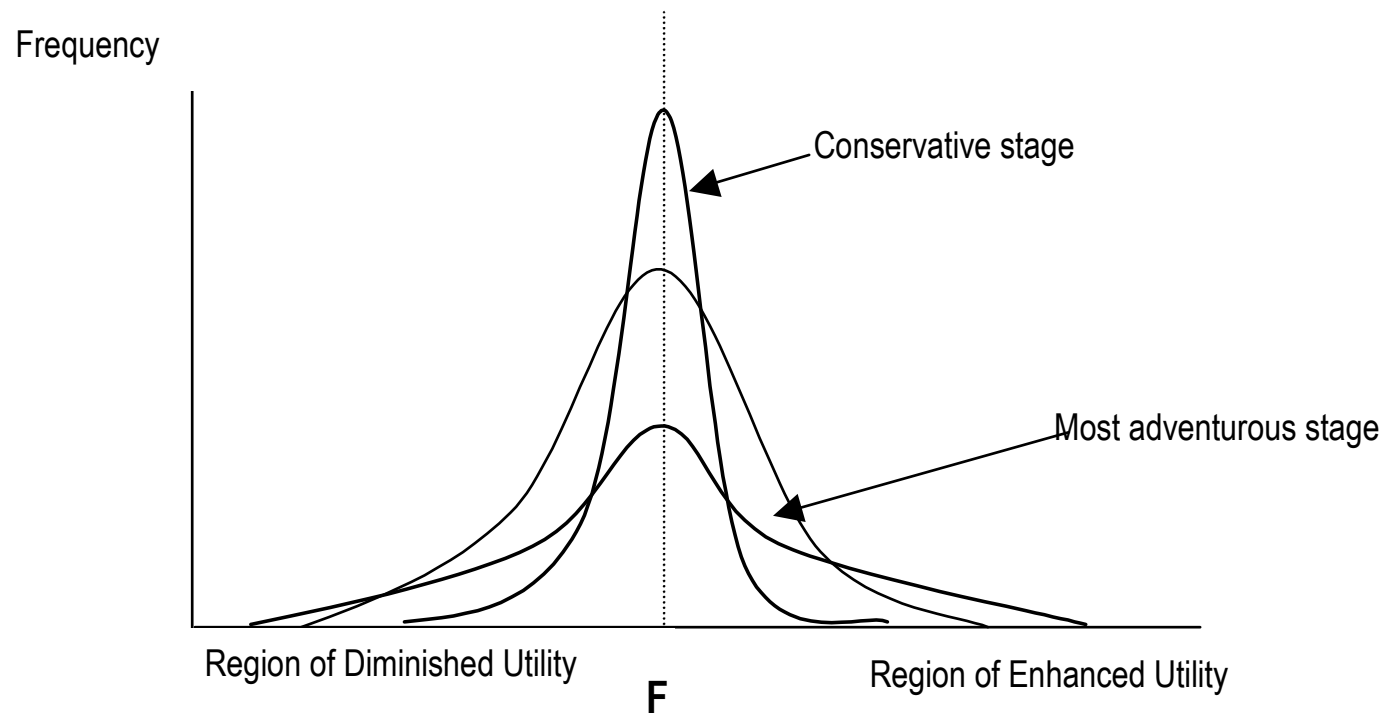
Figure 4: . Frequency distribution of the difference between expectation and realization of cinematic utility



Proposition 8

- It is simple to conjecture that
 - films consumers have different shaped curves at different stages of their life
 - different consumers have different shaped curves at any moment in time.

Figure 5. Frequency distributions of the difference between expectation and realization of cinematic utility



Proposition 9

- In recognising the potential for loss or gain, consumers are interested in the likelihood of either state occurring.
- How do they do this? Conventional economists would ascribe probabilities.

Proposition 10

- Yet, it is inconceivable to assign probability values to these states because probabilities cannot be formed *ex ante* for one-off decisions in which the conception of what is to be consumed is inevitably incomplete.

Enter George Shackle

- Hopes which are mutually exclusive are not additive; fears which are mutually exclusive are not additive. In each case the greatest prevails, and alone determines the power of the attractive or of the deterrent component of the venture's "dual personality". In this last sentence, the word "greatest" is insufficiently precise...What we mean is the most powerful element among them.
- *Expectations in Economics*, (1948: 38)

Proposition 11

- For this reason, Shackle's 'Theory of Surprise' is adopted, suggesting a range of *ex ante* possibilities (from perfectly possible to astonishing) for cinematic utility around a *best bet* reference point, as perceived by a consumer prior to the act of consumption.

Figure 6. The initial decision-making process

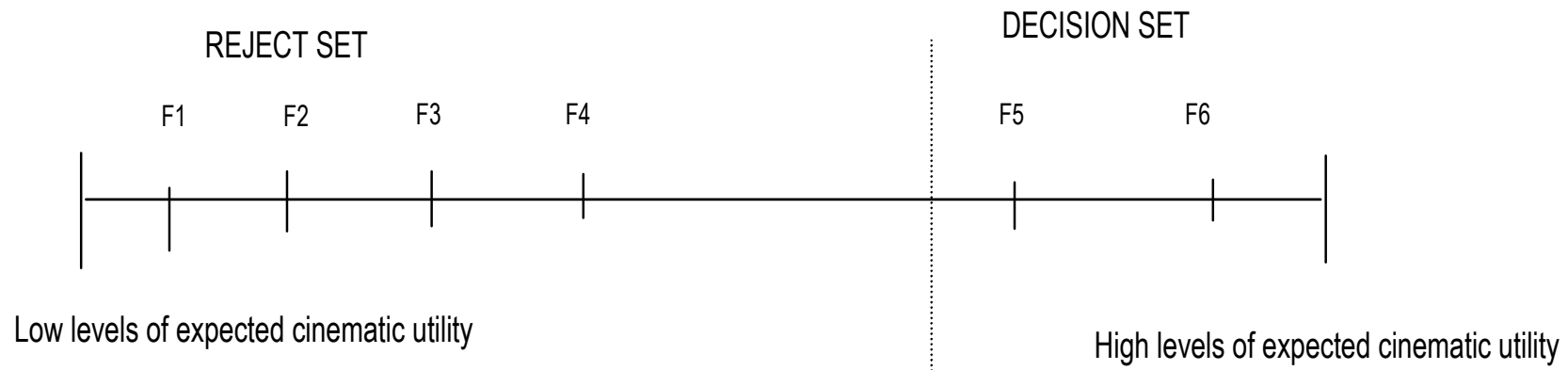
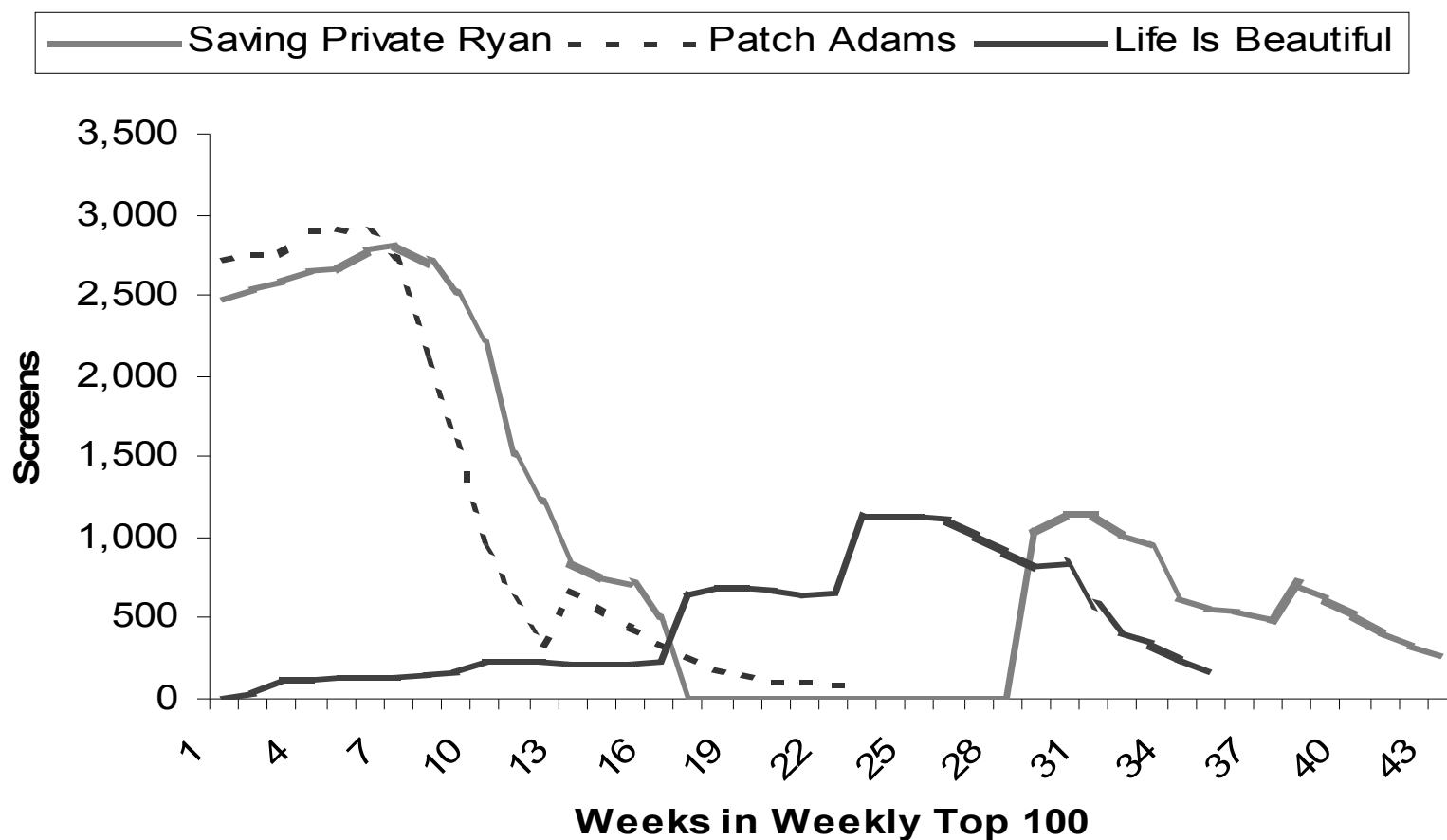


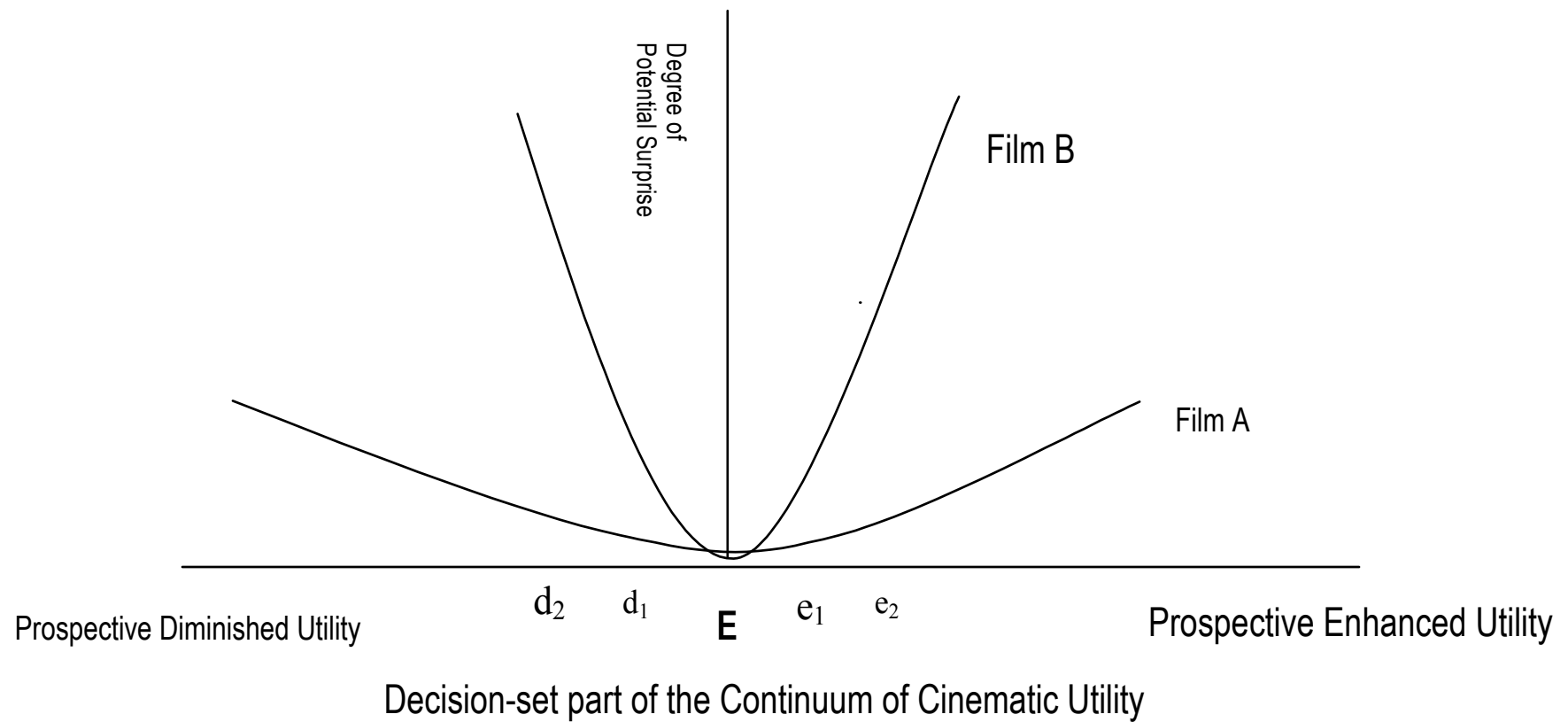
Figure 7. The diffusion patterns of *Life is Beautiful*, *Patch Adams* and *Saving Private Ryan*



Best bet heuristics

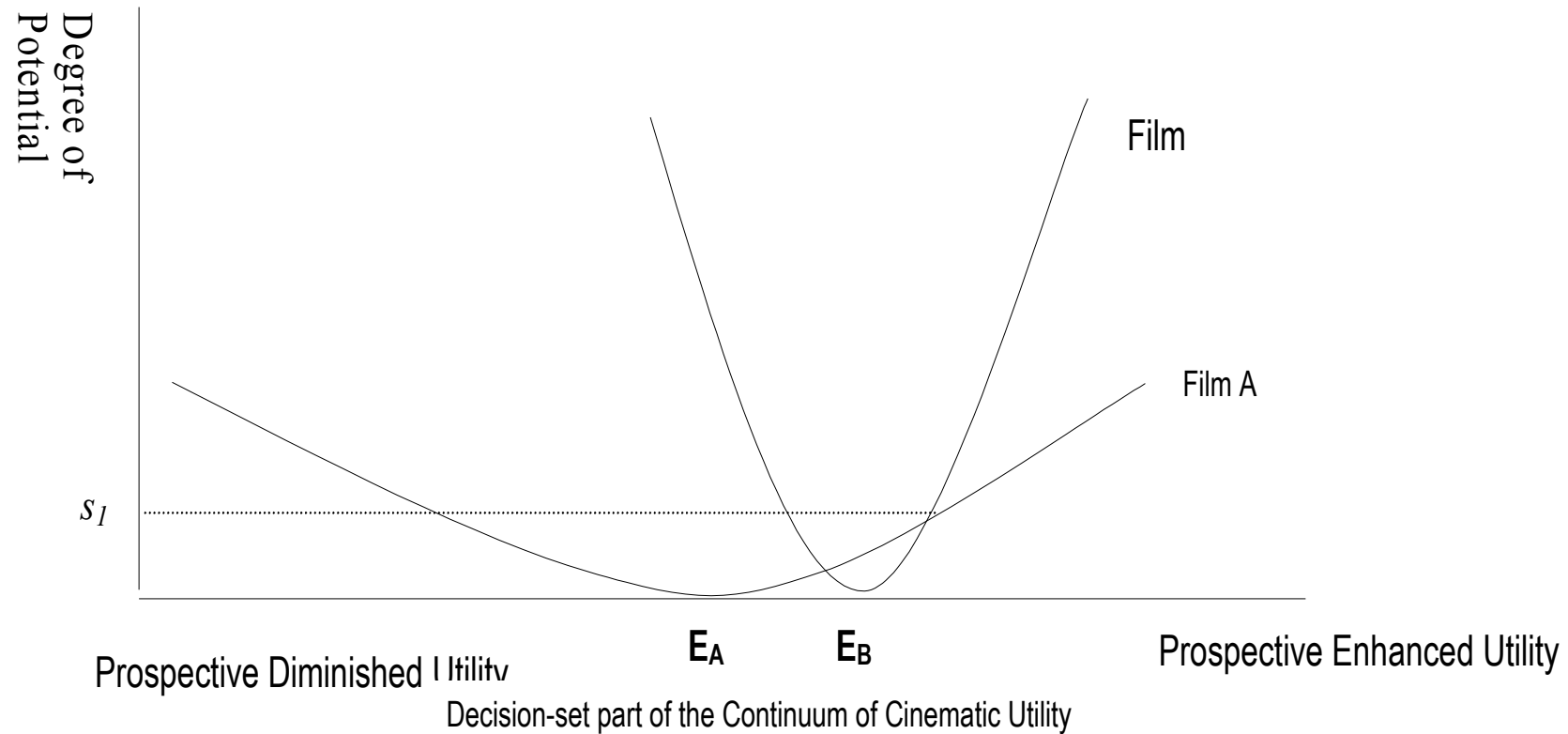
- *Patch Adams* and *Saving Private Ryan*, grossed US\$135m and US\$216m, opening on 2,712 and 2,463 screens, respectively. These two films on initial release would have been in many more filmgoers' decision sets than *Life is Beautiful*, which would not have been on most filmgoers' mental radar – it would have been languishing near F1 in Figure 6.

Figure 7. A consumer's *ex ante* choice situation



- Films A and B have identical ‘well-worth-taking-a-chance-on’ expectation levels, but have different surprise profiles.
- Point **E** on the x-axis represents the consumer’s *best-bet* perception of cinematic utility.
- The x-axis could incorporate ‘Prospect Theory’ by representing gains and losses of cinematic utility in terms of a logarithmic scale, making the two surprise curves asymmetrical in shape.

Figure 9: Another consumer's *ex ante* choice situation



- Two films have different ‘well-worth-taking-a-chance-on’ expectation levels, and different surprise profiles.
- The choice between the two films is determined by the consumer’s willingness to entertain uncertainty, choosing Film A only if in a strongly aesthetically adventurous mood.

Table 1: The Filmgoer's Uncertainty Matrix

	<i>Filmgoers prepared to tolerate only low levels of potential surprise – an unwillingness to experiment</i>	<i>Filmgoers prepared to tolerate high levels of potential surprise – a willingness to experiment</i>
<i>Filmgoers prepared to tolerate only low levels of diminished cinematic utility</i>	Film B	
<i>Filmgoers who give more weight to the promise of elevated levels of enhanced cinematic utility than to the possibility of diminished cinematic utility</i>	Film B	Film A

Conclusion

- Movies are experience goods
- We can conjecture that consumers build up a bank of knowledge capital over time.
- They use this accumulated knowledge to make choices between movies.
- However, they are often wrong – a discrepancy occurs between consumer expectation and realisation
- This difference can be modelled.