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# Working Paper Identifying nontransitive preferences

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# **Identifying Nontransitive Preferences**

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# Identifying Nontransitive Preferences\*

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#### Abstract

Transitivity is perhaps the most fundamental choice axiom and, therefore, almost all economic models assume that preferences are transitive. The empirical literature has regularly documented violations of transitivity, but these violations pose little problem as long as they are simply a result of somewhat-noisy decision making and not a reflection of the deterministic part of individuals' preferences. However, what if transitivity violations reflect individuals' genuinely nontransitive preferences? And how can we separate nontransitive preferences from noise-generated transitivity violations-a problem that so far appears unresolved? Here we tackle these fundamental questions on the basis of a newly developed, non-parametric method which uses response times and choice frequencies to distinguish genuine preferences from noise. We extend the method to allow for nontransitive choices, enabling us to identify the share of weak stochastic transitivity violations that is due to nontransitive preferences. By applying the method to two different datasets, we document that a sizeable proportion of transitivity violations reflect nontransitive preferences. Specifically, in the two datasets, 19% and 14% of all cycles of alternatives for which preferences are revealed involve genuinely nontransitive preferences. These violations cannot be accounted for by any noise or utility specification within the universe of random utility models.

**JEL Classification:**  $D01 \cdot D81 \cdot D91$ 

**Keywords:** Transitivity · Stochastic choice · Preference Revelation · Predicting Choices

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## 1 Introduction

The economic approach to decisions builds upon the assumption that choices can be represented by (complete) transitive binary relations, that is, preferences. Transitivity is hence, arguably, the most fundamental assumption behind economic models of choice. Yet, the empirical literature has regularly documented systematic violations of transitivity in the form of cyclical choices where, for example, a is chosen over b, b is chosen over c, and c is chosen over a (e.g., Tversky, 1969; Loomes, Starmer, and Sugden, 1989, 1991; Starmer, 1999, 2000; Humphrey, 2001).

The interpretation of this empirical evidence is strongly contested. The main argument is that choice is stochastic, and hence it is possible to observe nontransitive choices even though preferences are transitive, because actual choices are noisy (Iverson and Falmagne, 1985; Sopher and Gigliotti, 1993; Birnbaum, 2020). As Birnbaum and Schmidt (2010) observed, "[a] problem that has frustrated previous research has been the issue of deciding whether an observed pattern represents 'true violations' of transitivity or might be due instead to 'random errors.'" In other words, while it is tempting to interpret non-transitive choices as evidence of genuinely nontransitive preferences, those can in principle also be explained by, for example, random utility models which postulate a transitive binary relation plus a noise term (McFadden, 1974, 2001; Anderson, Thisse, and De Palma, 1992). The current literature has long been at an impasse due to the impossibility of disentangling preferences from noise.

In this contribution, we show how to disentangle preferences and noise to examine whether cyclical choices are due to noise or true evidence of genuinely nontransitive preferences. We do this by relying on recent results by Alós-Ferrer, Fehr, and Netzer (2021), which use response times to reveal preferences even when choices alone cannot do so. We extend their results to allow for "preference revelation" even when the underlying binary relation is nontransitive. We then apply the results to two existing datasets (which include both repeated choices and response times) and examine the evidence for violations of transitivity in the light of the new results. In a nutshell, we find that both datasets exhibit transitivity violations in the underlying preferences, independently of any model of noise. That is, we find a percentage of nontransitive patterns which cannot be explained by any model built upon transitive preferences and noisy choices.

The key to understand our empirical results is the fact that our theoretical approach allows us to examine *Revealed Transitivity Violations* (RTVs) in datasets including repeated choices and response times. RTVs are cyclical patterns of choices such that, for each choice pair along the cycle, *any* model of preference-based

choice (transitive or not) including noise (no matter which assumptions on the latter are imposed, e.g. symmetric or not), the data reveals that the underlying preference is as specified in the cycle. Hence, the observed preference cycle can only be explained by a genuinely nontransitive preference, and not by choice noise.

In contrast, the previous literature has concentrated on violations of Weak Stochastic Transitivity (WST; Tversky, 1969) in datasets with repeated choices. Denoting by p(x, y) the proportion of x choices from the pair  $\{x, y\}$ , a WST violation is a pattern in the data where  $p(a, b) \ge 1/2$  and  $p(b, c) \ge 1/2$ , but p(a, c) < 1/2.<sup>1</sup> The focus on WST is natural because it is straightforward to show that random utility models, where choices maximize an underlying utility plus a pair-specific noise term, can never violate WST, provided the noise is symmetrically distributed. The latter additional assumption is automatically fulfilled by all standard models used in microeconometric analysis (e.g., probit or logit choice). Hence, we will compare RTVs to violations of WST in both datasets. We show that every RTV implies a violation of WST, but the converse is not true. This is because violations of WST are compatible with asymmetric noise and transitive preferences, but RTVs are not.

In order to study transitivity violations, we extend a generalized version of random utility models (RUMs) and their response-times extensions in Alós-Ferrer, Fehr, and Netzer (2021) to allow for nontransitive preferences. This allows to falsify the transitivity hypothesis in models with noisy choices by documenting the existence of genuinely nontransitive preferences. To do so, we apply the framework developed in the seminal paper of Shafer (1974), which encompasses models allowing for non-transitive choices such as (generalized) regret theory (Loomes and Sugden, 1982, 1987; Bleichrodt and Wakker, 2015), salience theory (Bordalo, Gennaioli, and Shleifer, 2012), and Skew-Symmetric-Bilinear utility (SSB; Fishburn, 1984a,b,c). The relationship between our approach and previous approaches is as follows. In a standard utility model, x is (weakly) preferred to y if and only if  $U(x) - U(y) \ge 0$ , where U is a utility function. In a RUM, x is chosen over y if and only if  $U(x) - U(y) + \varepsilon_{xy} > 0$ , where  $\varepsilon_{xy}$  is a pair-specific noise term. In the deterministic model of Shafer (1974), utilities are replaced by general twovariable functions V(x, y), which can be thought of as "strength of preference," such that x is (weakly) preferred to y if and only if  $V(x, y) \ge 0$ . The generality of the V(x, y) function obviously allows for nontransitive choices, as V(x, y) > 0and V(y,z) > 0 do not necessarily imply that V(x,z) > 0. In our Random Choice

<sup>&</sup>lt;sup>1</sup>Note that violations of WST should be tested in experiments or datasets at the individual level, i.e. in settings where the same individual has made a decision multiple times, hence generating choice frequencies.

Models (RCMs), x is chosen over y if and only if  $V(x, y) + \varepsilon_{xy} > 0$ , where  $\varepsilon_{xy}$ is again a pair-specific noise term. Hence, RCMs encompass RUMs while allowing for genuinely nontransitive preferences. We work in the universe of RCMs and first derive a (possibly-nontransitive) preference revelation result extending the main result of Alós-Ferrer, Fehr, and Netzer (2021), which we then apply to the data. Models as regret theory or salience theory essentially postulate specific functions V(x, y) capturing certain phenomena (e.g., regret or salience), and thus encompass nontransitive choices. Those models, however, are deterministic, and hence, by definition, cannot tackle noise. Our RCMs encompass all such models while providing a framework where noise can be disentangled from underlying (potentially nontransitive) preferences.

The previous literature is characterized by a back-and-forth between contributions showing empirical violations of WST and related criteria, and responses arguing that those might be explained by models taking noise into account. Tversky (1969) reported WST violations, but Iverson and Falmagne (1985) reanalyzed the data and argued that evidence was compatible with transitive preferences plus noise. Loomes, Starmer, and Sugden (1989, 1991) invoked transitivity violations as a potential explanation of anomalies in risky choice, but Sopher and Gigliotti (1993) replicated their experiments and found choices to be captured by a structural model with transitive preferences and random errors.

Regenwetter, Dana, and Davis-Stober (2010, 2011) argued that violations of WST might be caused by *stochastic preferences* (Block and Marschak, 1960), that is, probability distributions over transitive preferences. They suggested to analyze possible violations of transitivity through violations of the triangle inequality instead:  $p(x,y) + p(y,z) - p(x,z) \leq 1$ . This property must be satisfied by any stochastic preference. Using both WST and the triangle inequality, Butler and Pogrebna (2018) found evidence for cyclic (hence nontransitive) preferences, but Birnbaum (2020, 2022) argued that those choice patterns could be explained by models allowing both stochastic preferences and additional choice errors.

Many other contributions in the literature have exhibited choice patterns possibly reflecting nontransitive preferences in multiple domains, e.g. Starmer and Sugden (1998), Starmer (1999), Birnbaum and Schmidt (2008), Lee, Amir, and Ariely (2009), Schmidt and Stolpe (2011), Davis-Stober et al. (2019), Park et al. (2019), and Li and Loomes (2022), among others. We refer the reader to Starmer (2000) and to the recent review by Ranyard et al. (2020) for further details. We also provide a more extensive literature review in Section 4.

Our contribution, however, is a major conceptual departure from the previous literature. Contrary to most of that literature, our approach does not rest on any specific model, or on conducting a "horse race" to see which of a given set of models explains data better (a common approach used, e.g., by Ranyard et al., 2020). Quite on the contrary, we identify transitivity violations which cannot be explained by any model which assumes transitive preferences, or distributions over them, and noise, even if noise is pair-specific and *cannot* be modeled as a standard, additive random utility model. The class of models discarded by our analysis is far more general than any class previously considered in the literature. In particular, it does not assume that preferences are stable, since it encompasses random utility models which are equivalent to stochastic preferences, i.e. probability distributions over different preferences. This is important because it has been argued that violations of transitivity might just be due to decisions being best described by a distribution over transitive preferences (Regenwetter, Dana, and Davis-Stober, 2011). Further, RCMs do not assume that noise is an additional term added to utilities, as in standard random utility models. In particular, it includes models which *cannot* be represented in that fashion, because noise terms are pair-specific and violate the Axiom of Revealed Stochastic Preference McFadden (1974); McFadden and Richter (1990) and the related Triangle Inequality (which has been proposed as al alternative to WST). That is, if our method reveals a transitivity violation, the interpretation is not that a certain nontransitive model "fits the data better." Rather, the interpretation is that there exists *no* model derived from transitive preferences (stable or not, deterministic or stochastic) and noise (additive or not, alternative-specific or pair-specific) which can explain the data in any way.

The revelation result we use, as the result of Alós-Ferrer, Fehr, and Netzer (2021), is based on two robust empirical regularities of choices and response times arising from psychology and neuroscience. The first regularity is that easier choice problems are more likely to elicit correct responses than harder problems. This *psychometric effect* is perhaps one of the most robust facts in all of psychology (Cattell, 1893; Laming, 1985; Klein, 2001; Wichmann and Hill, 2001), and extends to cases where the correct response is subjective, e.g. favorite colors, and is uncovered by the researcher through ratings (Dashiell, 1937). The phenomenon has also been established for economic decisions, with evidence dating back to Mosteller and Nogee (1951) and including the recent studies of Alós-Ferrer and Garagnani (2022a,b). The second regularity is that easier choice problems take less time to respond to than harder problems. This extremely-robust *chronometric effect* is considered a zero-order fact in the cognitive sciences, and there is overwhelming

evidence for it in a wide variety of domains, starting with classical contributions as Cattell (1902), Moyer and Landauer (1967), Moyer and Bayer (1976), and Dehaene, Dupoux, and Mehler (1990). The finding extends to preferential choices, as in Dashiell (1937), and a growing number of contributions have demonstrated it in economic decisions, including intertemporal decisions (Chabris et al., 2009), social preferences (Krajbich et al., 2015), and decisions under risk (Moffatt, 2005; Alós-Ferrer and Garagnani, 2022a,b).

Originally, the psychometric and chronometric effects where documented in discrimination tasks, where a decision is hard when the difference between two stimuli is small. The fact that error rates and response times are large in this case simply reflects the difficulty in separating the values of the options (see, e.g., Fudenberg, Strack, and Strzalecki, 2018). In RUMs, harder choices are those where the utilities U(x) and U(y) are closer, and hence more difficult to tell apart. The psychometric effect is an integral part of standard RUMs, which assume that choice probabilities are monotonic in utility differences. The contribution of Alós-Ferrer, Fehr, and Netzer (2021) was to integrate chronometric effects in RUMs and show how to use them for preference revelation. Analogously, in RCMs, harder choices are those where the strength of preference V(x, y) is smaller, and we rely on psychometric and chronometric effects for our results. Importantly, our approach provides conditions (in terms of choice frequencies and distributions of response times) which, if fulfilled, reveal the underlying preference within a pair independently of any assumptions on the behavioral noise. Within the class of RCMs, those revealed preferences can in turn reveal nontransitive cycles. That is, contrary to WST and other approaches, we do not look for violations of certain implied conditions (on choice frequencies only), but rather examine when genuinely nontransitive preferences are revealed by the choice and response time data. In this sense, an RTV does not just imply that the data violates transitivity: it actually reveals nontransitive preferences behind the data.

Our theoretical approach requires datasets where subjects make the same choice multiple times (as in any experiment focusing on WST violations) and where response times were explicitly and reliably measured. We obtained two datasets with these characteristics from Davis-Stober, Brown, and Cavagnaro (2015) and Kalenscher et al. (2010). It is important to note that none of these datasets was collected with our approach in mind, and hence they also serve as a demonstration of the applicability of our techniques. As anticipated above, we find that there are revealed transitivity violations in the data, hence rejecting the hypothesis that choices can be represented by transitive preferences plus behavioral noise. Naturally, however, not all violations of WST are true violations of transitivity, and hence our approach provides a better estimate of the extent of nontransitive preferences, which is necessarily smaller than that derived from WST alone.

We also examine which choice patterns give rise to nontransitivities more often in both datasets, and hence what might be the mechanisms underlying genuinely nontransitive preferences. The most frequent nontransitivities appear to involve chains of small changes in the characteristics of the options, resulting in a series of binary choices where the evaluations are relatively close in each pair. People seem to accept series of small tradeoffs in a way that does not scale up. For example, they repeatedly accept small decreases in monetary payoffs in exchange for small increases in the probability of a payoff, until a point is reached where they accept a large decrease in probability in exchange for a large increase in the monetary payoff, bringing them back to the starting point.

The paper is structured as follows. Section 2 presents the theoretical framework, starting with a brief review of the received deterministic models which allow for transitivity violations (Section 2.1), continuing with an exposition of why the models we consider are more general than standard (additive) random utility models (Section 2.2), and concluding with our generalization of random utility models to the nontransitive case and the preference revelation result through response times (Section 2.3). Section 3 presents our empirical analysis of two existing lottery-choice datasets and applies the techniques to uncover the extent of revealed transitivity violations. Section 4 presents a more detailed discussion of the previous empirical literature on transitivity violations, and Section 5 concludes.

# 2 Distinguishing Noise from Nontransitive Preferences

To test whether choices are transitive, one needs to allow for the possibility that they are not. Following Shafer (1974) and others, we refer to a complete but not necessarily transitive binary relation on a set X as a *nontransitive preference*. In this section we build up the framework in three steps. First (Subsection 2.1), we briefly review deterministic models of nontransitive choice, encompassing skewsymmetric bilinear (SSB) utility theory, generalized regret theory, and salience theory. Second (Subsection 2.2), we review how to incorporate noise into models of choice. In this context, we provide a generalization of standard, additive, random utility models, and show that the standard conditions used in the literature to test for violations of transitivity are insufficient. Our generalization involves, in particular, the possibility of noise that is specific to the pair of choice options. Third (Subsection 2.3), we bring both (potentially nontransitive) preferences and general models of noise together and proceed to extend the (already generalized) random utility models to allow both for nontransitivities which are simply due to noise and those which are due to underlying nontransitive preferences.

#### 2.1 Deterministic Models of Nontransitive Preferences

If transitivity does not hold, choices can not be represented by utility functions. It is, however, possible to represent nontransitive binary relations on a set X through real-valued, two-argument functions as follows. Consider a skew-symmetric function  $v : X^2 \to \mathbb{R}$ , i.e. v(x, y) = -v(y, x) for all  $x, y \in X$ . We say that a nontransitive preference  $\succeq$  on X is represented by a function  $v : X^2 \to \mathbb{R}$  if, for all  $x, y, \in X, v(x, y) \ge 0$  holds if and only if  $x \succeq y$ . For Euclidean spaces, Shafer (1974) proved that every strictly convex and continuous nontransitive preference can be represented by a continuous, skew-symmetric function as above. This is a natural generalization of representation results for transitive preferences, in which case one can set v(x, y) = u(x) - u(y) for a utility function u. Interestingly, the function v has been interpreted as a "strength of preference" (see, e.g. Fishburn, 1988, Chapter 3.9 and ff.), with values of v(x, y) close to zero indicating a difficult decision (the decision maker is close to indifference).

The reason why this representation allows for nontransitivities is that  $v(x, y) \ge 0$  and  $v(y, z) \ge 0$  together deliver no implication for the sign of v(x, z). For example, in a set  $\{x, y, z\}$  one might have that v(x, y) = v(y, z) = 1, and hence x is chosen over y and y over z, while v(x, z) = -1 and hence z is chosen over x. In contrast, if choices are represented by a utility function u, the inequalities  $u(x) - u(y) \ge 0$  and  $u(y) - u(z) \ge 0$  immediately imply that  $u(x) - u(z) = [u(x) - u(y)] + [u(y) - u(z)] \ge 0$ .

For multidimensional alternatives,  $x = (x_1, \ldots, x_n)$ , Tversky (1969) introduced the *additive difference model* with the explicit purpose of studying nontransitivities. This model postulates that  $x \succeq y$  if and only if

$$\sum_{i=1}^n \phi_i(u_i(x_i) - u_i(y_i)) \ge 0$$

where  $u_i$  are real-valued factor utilities,  $\phi_i$  are skew-symmetric ( $\phi_i(-r) = -\phi_i(r)$ ), increasing and continuous real-valued functions. This expression becomes an example of a function v as in Shafer (1974) for the multidimensional case. When the alternatives are lotteries, adding the requirement that v is linear in both arguments results in skew-symmetric bilinear (SSB) representations, which have been studied by Kreweras (1961) and Fishburn (1982, 1984b, 1986), among others. Specifically, let  $L_1, L_2$  be simple lotteries on the set of outcomes X, i.e.  $L_1(x), L_2(x)$  denote the respective probabilities of outcome x and those are only positive for finitely many outcomes. A function v defined on outcomes can be extended bilinearly to simple lotteries by

$$V^{SSB}(L_1, L_2) = \sum_{x \in X} \sum_{y \in X} L_1(x) L_2(y) \cdot v(x, y).$$

so that  $L_1$  is weakly preferred to  $L_2$  if and only  $V^{SSB}(L_1, L_2) \ge 0$ . This generalizes expected utility, since if v(x, y) = u(x) - u(y) for a utility function u on X, then  $V^{SSB}(L_1, L_2) = \sum_{x \in X} L_1(x)u(x) - \sum_{y \in X} L_2(y)u(y)$ . However, the SSB form does not require transitivity and indeed allows for preference cycles and violations of the independence axiom (see Fishburn, 1988 for an axiomatization of SSB nontransitive preferences). That is, the function  $V^{SSB}$  is a particular example of the approach of Shafer (1974) for a space of lotteries.

Some other prominent theories have incorporated regret and salience in decision making under risk by capturing these phenomena in a skew-symmetric function over outcomes and then extending that function to lotteries in a manner similar to SSB models. These models, however, are formulated in terms of *acts* (Savage, 1954), that is, mappings from a set of states to outcomes, and hence it is better to change notation at this point. Let the (finite) set of states be denoted by S, and let p(s) denote the probability of a state  $s \in S$ . A lottery  $L^x$  is then a vector of outcomes  $(x_s)_{s\in S}$ , with the interpretation that outcome  $x_s$  obtains if state soccurs.

Loomes and Sugden (1982) introduced regret theory as a particular model allowing for transitivity violations in the risk domain (see Starmer, 2000, for a summary). Diecidue and Somasundaram (2017) showed that regret theory deviates from expected utility only by relaxing transitivity. Loomes and Sugden (1987) later extended this framework to generalized regret theory. This theory considers monetary consequences,  $X \subseteq \mathbb{R}$ , and starts out by postulating a real-valued, twoargument function M, so that if  $x, y \in X$ , M(x, y) is interpreted as the utility of choosing x net of the regret associated with missing out on y. Then M(x, y)becomes the basis for defining the function  $v^R$  by  $v^R(x, y) = M(x, y) - M(y, x)$ which is immediately skew-symmetric and hence a particular case of the approach of Shafer (1974) for the space of outcomes. Analogously to SSB models, but within the formalization of lotteries as acts, a lottery  $L^x$  is weakly preferred to a lottery  $L^y$  if and only if  $V^R(L^x, L^y) \ge 0$ , where

$$V^{R}(L^{x}, L^{y}) = \sum_{s \in S} p(s)v^{R}(x_{s}, y_{s}).$$

Loomes and Sugden (1987) further impose several assumptions on  $v^R$ , namely that  $v^R(x,y) \ge 0$  if and only if  $x \ge y$  (so that, for outcomes, more is better), that  $v^R(x,z) > v^R(y,z)$  (resp. <,=) if and only if x > y (resp. <,=), and a "regret aversion" assumption stating that  $v^R(x,z) > v^R(x,y) + v^R(y,z)$  whenever x > y > z, meaning that large post-decision regrets are worse than the sum of step-wise, smaller regrets. In particular, skew symmetry and these conditions imply that v(x,y) > 0 if x > y, v(x,y) < 0 if x < y, and v(x,x) = 0, for any outcomes x, y.

The comparison of regret theory and SSB theory is obscured by the fact that the former is formulated in terms of lotteries as acts, while the latter is formulated in terms of lotteries as probability distributions. Loomes and Sugden (1987) show that, for stochastically independent lotteries (where the set of states can be seen as a product of lottery-specific sets of states), generalized regret theory is equivalent to SSB theory. Again, the function  $V^R$  becomes a particular example of the approach of Shafer (1974) for a space of lotteries.

Bordalo, Gennaioli, and Shleifer (2012, 2013) introduced salience theory by postulating a symmetric function  $\sigma$ , i.e.  $\sigma(x, y) = \sigma(y, x)$  for all  $x, y \in X \subseteq \mathbb{R}$ , with the interpretation that for a lottery pair  $(L^x, L^y)$ ,  $\sigma(x_s, y_s)$  is the salience of the state s. This function is assumed to fulfill a number of properties capturing the idea of salience. In a "smooth" version of the theory, salience values are transformed through an increasing, real-valued function f which preserves salience rankings as derived from  $\sigma$ , yielding<sup>2</sup>

$$q_s(L^x, L^y) = \frac{f(\sigma(x_s, y_s))}{\sum_{r \in S} f(\sigma(x_r, y_r))}.$$

The decision maker then attaches a value to lottery  $L^x$  which depends on the alternative lottery  $L^y$ ,

$$U^{ST}(L^x|L^y) = \sum_{s \in S} q_s \left(L^x, L^y\right) u(x_s)$$

<sup>&</sup>lt;sup>2</sup>Bordalo, Gennaioli, and Shleifer (2012) also provide a *rank-based* version of salience theory with similar insights. This version is analytically more tractable for specific applications, but creates discontinuities in valuations (Kontek, 2016).

where u is strictly increasing with u(0) = 0.

Although (smooth) salience theory appears functionally different from generalized regret theory and SSB models, it is worth observing that there is a relation. Under salience theory, a lottery  $L^x$  is weakly preferred to a lottery  $L^y$  if and only if  $V^{ST}(L^x, L^y) \ge 0$ , where

$$V^{ST}(L^x, L^y) = \sum_{s \in S} p(s) f(\sigma(x_s, y_s)) [u(x_s) - u(y_s)].$$

This already shows that regret theory is a further particular case of the approach of Shafer (1974) for a space of lotteries. Herweg and Müller (2021) further observe that the two-argument function on outcomes  $w^{ST}$  defined by  $w^{ST}(x,y) = f(\sigma(x,y)) [u(x) - u(y)]$  is skew symmetric, and hence salience theory can be written in the same terms as generalized regret theory. Herweg and Müller (2021) also show that, assuming continuity of u and f, the assumptions of (smooth) salience theory imply those of generalized regret theory, that is, one can view salience theory as a particular case of the latter, and hence (for stochastically independent lotteries) as a particular case of SSB theory. Interestingly, the original regret theory of Loomes and Sugden (1982), which was a more specific model, turns out to be a particular case of salience theory if an additional, mild condition is imposed (Herweg and Müller, 2021, Theorem 2).<sup>3</sup>

All theories discussed above obviously allow for nontransitivities in lottery choice, since they can be described as special cases of the fundamental representation of Shafer (1974).<sup>4</sup> That is, ultimately they provide a (structural, parametric) functional form for a function  $V(\cdot, \cdot)$  defined on a specific space, while the general approach of Shafer (1974) allows for any skew-symmetric function.

### 2.2 Adding Noise: (Generalized) Random Utility Models

In an *additive* random utility model (McFadden, 1974, 2001, 2005), an agent is assumed to have an underlying utility function u over a feasible set, but to be

<sup>&</sup>lt;sup>3</sup>It can be shown that generalized regret theory (and hence smooth salience theory) fulfill a weaker version of transitivity, called *dominance transitivity* by Diecidue and Somasundaram (2017): if  $L^x$  strictly dominates  $L^y$  (yields better outcomes for all states, and strictly better for at least some states) and the latter is preferred to  $L^z$ , then  $L^x$  must be strictly preferred to  $L^z$ (and analogously if  $L^x$  is preferred to  $L^y$  and the latter strictly dominates  $L^z$ ). This rather weak condition seems to be the only systematic constraint on the kind of transitivity violations that these models can generate.

<sup>&</sup>lt;sup>4</sup>Other models that allow for transitivity violations include lexicographic semiorders (Hausner, 1954; Fishburn, 1971), similarity theory (Fishburn, 1991; Leland, 1994, 1998), the context-dependent model of the gambling effect (Bleichrodt and Schmidt, 2002), and the stochastic difference model of González-Vallejo (2002).

affected by random utility shocks. Thus, given a choice between two alternatives x and y, realized utilities are  $u(x) + \varepsilon_x$  and  $u(y) + \varepsilon_y$ , respectively, where  $\varepsilon_x$ ,  $\varepsilon_y$  are mean-zero random variables (not necessarily independent). Thus, a RUM generates choice probabilities, with the probability of x being chosen when y is also available given by

$$p(x,y) = \operatorname{Prob}(u(x) + \varepsilon_x > u(y) + \varepsilon_y) = \operatorname{Prob}(u(x) - u(y) + \varepsilon_x - \varepsilon_y > 0).$$

where tie-breaking conventions are irrelevant for continuously-distributed errors. Under specific assumptions on the distributions of the error terms, one obtains particular models, as the celebrated logit choice (Luce, 1959) or the classical probit choice (Thurstone, 1927). This general setting has become one of the dominant approaches in economics to model the fact that choice is empirically (and overwhelmingly) observed to be stochastic.

If the error term  $\varepsilon_{xy} = \varepsilon_x - \varepsilon_y$  is assumed to be symmetrically distributed around zero, a preference for x over y is revealed if and only if  $p(x, y) \ge 1/2$ . Since noise is not directly observable, the assumption of symmetric noise is of course untestable and might be unwarranted. If one is willing to accept it, however, a violation of transitivity in this framework then consists of three (or more) alternatives x, y, z such that  $p(x, y) \ge 1/2$ ,  $p(y, z) \ge 1/2$ , and p(z, x) > 1/2. Hence, a large part of the literature tests for violations of Weak Stochastic Transitivity, which is defined as the condition that if  $p(x, y) \ge 1/2$  and  $p(y, z) \ge 1/2$ , then  $p(x, z) \ge 1/2$ .

It is important to note, however, that WST fails to properly capture violations of transitivity even in the restricted domain of additive random utility models. It is well-known (Block and Marschak, 1960) that additive random utility models as just described are equivalent to *stochastic preferences*, i.e. probability distributions over transitive preferences. Regenwetter, Dana, and Davis-Stober (2010, 2011) and others have argued that violations of transitivity might be due to preferences being unstable in the sense that choices are best described by a probability distribution over transitive preferences, i.e. a stochastic preference. By Block and Marschak (1960) stochastic preferences can also be represented by additive random utility models, as long as error terms are not required to be independent. In particular, such a model (which is included in the class of models we consider) might produce violations of WST even though all involved preferences are transitive, as the following (standard) example shows. **Example 1.** There are three alternatives, x, y, and z. A decision maker is described by a distribution over three alternative, transitive preferences:  $x \succ y \succ z$ ,  $y \succ z \succ x$ , and  $z \succ x \succ y$ , each with probability 1/3. That is, every time the decision maker makes a choice, one of the three preferences is realized (with equal probabilities) and the decision maker chooses following that preference. In this sense, the decision maker *always* has a transitive preference, which however changes from decision to decision.

It is immediate to see that p(x, y) = p(y, z) = p(z, x) = 2/3, and hence WST is violated. Thus WST might be violated even though preferences are described by a standard additive random utility model with transitive preferences. Obviously, however, the corresponding noise terms cannot be symmetric.

The problem of whether a system of choice probabilities can be represented by a stochastic preference (hence an additive random utility model) or not has a wellknown solution, with characterizations due to Block and Marschak (1960), Falmagne (1978), McFadden and Richter (1990), and Barberá and Pattanaik (1986). One particularly useful characterization is the Axiom of Revealed Stochastic Preference (ARSP; McFadden and Richter, 1990; McFadden, 2005), which states that, for any finite collection of choices  $(x_1, y_1), \ldots, (x_n, y_n)$ , one must have that

$$\sum_{i=1}^{n} p(x_i, y_i) \le \max_{\succ \in \mathcal{P}} \sum_{i=1}^{n} p_{\succ}(x_i, y_i)$$

where  $\mathcal{P}$  is the set of all possible strict preferences on the (finite) choice set, and, for any  $\succ \in \mathcal{P}$ ,  $p_{\succ}(x,y) = 1$  if  $x \succ y$  and  $p_{\succ}(x,y) = 0$  if  $y \succ x$ . That is, the sum of choice probabilities along any sequence of binary choices must be weakly smaller than the largest sum or (degenerate) probabilities one could obtain for a deterministic (transitive) preference. A collection of choice probabilities can be generated by a stochastic preference (or an additive RUM) if and only if it fulfills the ARSP.

Regenwetter, Dana, and Davis-Stober (2010, 2011) and others have argued in favor of criteria other than WST to test for stochastic transitivity. In particular, they have proposed to rely on the Triangle Inequality (TI), which (although this fact seems to be largely unmentioned in the literature) is a direct implication of the ARSP (but does not imply it). TI is the condition that, for any three distinct alternatives x, y, z,

$$1 \le p(x, y) + p(y, z) + p(z, x) \le 2.$$

The right-hand inequality is immediately implied by the ARSP applied to the collection of choices (x, y), (y, z), (z, x). The left-hand inequality is equivalent to

the statement that  $p(x, z) \leq p(x, y) + p(y, z)$  (hence the name "triangle inequality"), which in turn is equivalent to  $p(x, z) + p(z, y) + p(y, x) \leq 2$ , which is again just the ARSP applied to the collection of choices (x, z), (z, y), (y, x). Hence, the proposal to use TI is essentially equivalent to testing whether choices can be explained by an additive RUM (although not completely, since the ARSP has implications beyond the TI). The following example (inspired by Birnbaum, 2022) shows that this is also insufficient.

**Example 2.** There are three alternatives, x, y, and z. A decision maker has a unique, transitive preference:  $x \succ y \succ z$ . However, the decision maker makes mistakes. Specifically, the decision maker makes a mistake with a 5% probability if confronted with choices (x, y) or (y, z), and with a 25% probability if confronted with the choice (x, z). It follows that p(x, y) = p(y, z) = 0.95 and p(z, x) = 0.25. this implies that p(x, y) + p(y, z) + p(z, x) = 2.15 > 2, and thus the TI (and hence the ARSP) is violated.

This example serves two purposes. First, it exhibits a decision maker who has transitive preferences affected by behavioral noise, but whose choices violate TI. Hence violations of TI are not sufficient to identify genuinely nontransitive preferences in models with noise. Second, since the ARSP is violated, behavior in the above example cannot be represented as an additive RUM. However, the behavior can be represented as arising from a RUM in the sense of Alós-Ferrer, Fehr, and Netzer (2021), which assumes transitive preferences but allows for pair-specific noise (see below).

Alós-Ferrer, Fehr, and Netzer (2021) introduced a more general class of RUM models where error terms directly apply to the utility differences, i.e. the realized utility difference given a choice  $\{x, y\}$  is  $u(x) - u(y) + \varepsilon_{x,y}$  for a mean-zero random variable  $\varepsilon_{x,y}$  and hence

$$p(x,y) = \operatorname{Prob}(u(x) - u(y) + \varepsilon_{x,y} > 0).$$

For instance, Example 2 above can be represented by u(x) = 3, u(y) = 2, u(z) = 1 and random variables  $\varepsilon_{xy}$ ,  $\varepsilon_{yz}$ ,  $\varepsilon_{xz}$  as follows. Both  $\varepsilon_{xy}$  and  $\varepsilon_{yz}$  take the value 2/19 with probability 0.95, and the value -2 with probability 0.05 (hence  $E(\varepsilon_{xy}) = E(\varepsilon_{yz}) = 0$ ). The variable  $\varepsilon_{xz}$  takes the value 1 with probability 0.75, and the value -3 with probability 0.25 (so that  $E(\varepsilon_{xz}) = 0$ ). Example 1 can be easily represented by an additive RUM with correlated error terms, but it is also easily represented by a RUM in the sense of Alós-Ferrer, Fehr, and Netzer (2021) with u(x) = 3, u(y) = 2, u(z) = 1 and zero-mean, independent error terms as follows.

Both  $\varepsilon_{xy}$  and  $\varepsilon_{yz}$  take the value 1 with probability 2/3, and the value -2 with probability 1/3. The variable  $\varepsilon_{xz}$  takes the value 6 with probability 1/3, and the value -3 with probability 2/3. This illustrates that the class of transitive models that we allow for encompasses arbitrary distributions over transitive preferences plus arbitrary error terms, and is not limited to the classical additive RUMS. Our results will allow us to identify empirical patterns that cannot be generated by *any* transitive model in this class. Those empirical patterns will hence, in particular, exclude that the data is generated by arbitrary RUMs, which also excludes stochastic (unstable) preferences (Regenwetter, Dana, and Davis-Stober, 2010).

Remark 1. A "trembling-hand model" (e.g. Loomes, Moffatt, and Sugden, 2002) assumes that a decision maker is endowed with a fixed (transitive) strict preference but that a pair-specific error might always occur. In particular, if  $x \succ y$ , there is a trembling probability  $e_{xy} \in (0, 1)$  that y is chosen. Example 2 is an example of a trembling-hand model.

We claim that any trembling-hand model can be represented as a RUM in the sense of Alós-Ferrer, Fehr, and Netzer (2021). To see this, consider a trembling-hand model where the preference is represented by a utility function u and and the error probabilities  $e_{xy} \in (0, 1)$  are as above. For each pair x, y with  $x \succ y$  (hence (u(x) > u(y)), define the zero-mean random variable  $\varepsilon_{xy}$  which takes the value u(y) - u(x) - 1 with probability  $e_{xy}$ , and the value  $(e_{xy}/(1 - e_{xy}))(u(x) - u(y) + 1)$  with probability  $1 - e_{xy}$ . The utility function u together with the noise terms  $\varepsilon_{xy}$  define a RUM in the sense of Alós-Ferrer, Fehr, and Netzer (2021).

In "true and error" models (see, e.g., Birnbaum and Schmidt, 2008; Birnbaum, 2022), a decision maker is described by a distribution over preferences (transitive or not) *plus* pair-specific (but preference-independent) error terms. However, the selected preference is assumed to stay fixed along a given experimental session, and change only across sessions. Hence, for a given session, a true and error model is a trembling-hand model as above, and in particular is encompassed in the class of models we consider.

Remark 2. Random utility models as in Alós-Ferrer, Fehr, and Netzer (2021) also encompass the class of random parameter models (e.g., Loomes and Sugden, 1998; Apesteguía and Ballester, 2018) as a special case. In those models, a one-parameter functional form for the utility u is fixed. For each choice pair (x, y), a value of the parameter is randomly drawn from a distribution and used to evaluate the choice. This cannot be captured as a standard, additive random utility model, but defines a model in the class considered by Alós-Ferrer, Fehr, and Netzer (2021). This is because noise in the parameter can be equivalently written as a pair-specific noise term  $\varepsilon_{xy}$ , which will generally be non-symmetric.

### 2.3 Random Nontransitive Models and Response Times

We now show how the techniques developed in Alós-Ferrer, Fehr, and Netzer (2021) can be used to identify genuinely nontransitive preferences. That work provided sufficient conditions on the distributions of response times conditional on each possible choice (x or y for a given pair  $\{x, y\}$ ) which ensure the revelation of a preference for, say, x over y without making any assumptions about the utility function and the distribution of error terms. More precisely, if the conditions are satisfied, the formal results ensure that u(x) > u(y) for any underlying u and any distribution of noise which fits the data (in terms of choices and response times)

The importance of these results relies on the fact that they guarantee that an option is preferred to another for *any* utility function and *any* distribution of the error term that the analyst might consider, and hence the results are completely non-parametric and independent of functional forms. The message is that the properties of the empirical distribution of response times allow to recover the underlying preferences in random utility models without imposing any substantive assumptions on the distribution of random terms.

In this subsection, we extend the main result of Alós-Ferrer, Fehr, and Netzer (2021) to allow for nontransitivities. We consider abstract options, which could e.g. be themselves lotteries (this will be the case in our empirical analyses).

To allow for nontransitive preferences, we go one step forward and consider any skew-symmetric function  $v : X^2 \mapsto \mathbb{R}$  (not necessarily arising from a utility function). That is, we consider models where noise is captured by mean-zero random variables  $\varepsilon_{x,y}$  and choice probabilities are given by

$$p(x, y) = \operatorname{Prob}(v(x, y) + \varepsilon_{x,y} > 0).$$

We remark at this point that our approach is agnostic with respect to whether decisions among lotteries are best represented by expected utility theory, cumulative prospect theory, or any other model generating preferences among lotteries. We merely test the class of models generating transitive choices, where the function above can be written as v(x, y) = u(x) - u(y), against the class of models allowing for nontransitivity lottery choices, where the function v(x, y) cannot be written as a difference of utilities independently of the considered alternatives. The former class includes expected utility theory, rank-dependent utility theory, cumulative prospect theory, and others, while the latter includes generalized regret theory, salience theory, and SSB utility theory.<sup>5</sup>

To derive and describe our result, we need to define what we understand by a dataset. Given the set of alternatives X, denote by  $C = \{(x, y) \mid x, y \in X, x \neq y\}$  the set of all binary choice problems, so (x, y) and (y, x) both represent the problem of choice between x and y. Let  $D \subseteq C$  be the set of choice problems on which we have data in the form of direct choices, assumed to be non-empty and symmetric, that is,  $(x, y) \in D$  implies  $(y, x) \in D$ . A dataset (including response times) is modeled as follows (Alós-Ferrer, Fehr, and Netzer, 2021).

**Definition 1.** A stochastic choice function with response times (SCF-RT) is a pair of functions (p, f) where

- (i) p assigns to each  $(x, y) \in D$  a frequency p(x, y) > 0, with the property that p(x, y) + p(y, x) = 1, and
- (ii) f assigns to each  $(x, y) \in D$  a strictly positive density function f(x, y) on  $\mathbb{R}_+$ .

In an SCF-RT, p(x, y) is interpreted as the frequency with which a decision maker chose x when offered the binary choice between x and y. The assumption that p(x, y) > 0 for all  $(x, y) \in D$  implies that choice is noisy, that is, every alternative is chosen at least a small fraction of the time. The density f(x, y)describes the distribution of response times conditional on the instances where x was chosen in the binary choice between x and y. The corresponding cumulative distribution function is denoted by F(x, y). The following definition extends the concepts in Alós-Ferrer, Fehr, and Netzer (2021).

**Definition 2.** A random choice model with a chronometric function (RCM-CF) is a triple  $(v, \tilde{v}, r)$  where  $v : X^2 \to \mathbb{R}$  is a skew-symmetric function and  $\tilde{v} = (\tilde{v}(x, y))_{(x,y)\in C}$  is a collection of real-valued random variables, with each  $\tilde{v}(x, y)$ having a density function g(x, y) on  $\mathbb{R}$ , fulfilling the following properties:

(RCM.1)  $\mathbb{E}[\tilde{v}(x,y)] = v(x,y),$ 

(RCM.2)  $\tilde{v}(x,y) = -\tilde{v}(y,x)$ , and

(RCM.3) the support of  $\tilde{v}(x, y)$  is connected.

<sup>&</sup>lt;sup>5</sup>We remind the reader that our functions u and v are defined here on an abstract space. For a space of lotteries, u might be expected utility and v might be any of the functions  $V^{SSB}$ ,  $V^R$ ,  $V^S$  described in Section 2.1.

Further,  $r : \mathbb{R}_{++} \to \mathbb{R}_{+}$  is a continuous function that is strictly decreasing in v whenever r(v) > 0, with  $\lim_{v \to 0} r(v) = \infty$  and  $\lim_{v \to \infty} r(v) = 0$ .

A RUM-CF is a particular case of RCM-CF where the function v is derived from a utility function, v(x, y) = u(x) - u(y), and hence transitivity is guaranteed. The random variables  $\tilde{v}(x, y)$  and their densities g(x, y) capture noisy choice. Condition (RCM.1) requires that noise is unbiased (equivalent to assuming mean zero for an additive term  $\varepsilon_{xy} = \tilde{v}(x, y) - v(x, y)$ ). Condition (RCM.2) reflects that the choice between x and y is the same as the choice between y and x, and condition (RCM.3) is a regularity condition requiring connected support, i.e. without gaps. Last, rrepresents the chronometric function, which maps realized values of v into response times r(|v|). Specifically, easier choices (where the value  $\tilde{v}(x, y)$  is larger) are faster. This is in keeping with the interpretation that the function v captures a strength of preference.

Given an RCM-CF  $(v, \tilde{v}, r)$  and a pair  $(x, y) \in C$ , the random variable describing the response times predicted by the model conditional on x being chosen over y is given by

$$\tilde{t}(x,y) = r(|\tilde{v}(x,y)|),$$

conditional on  $\tilde{v}(x,y) > 0$ .

The result we seek will be in terms of preference revelation for *all* RCM-CFs which rationalize (explain) the data. The following definition pins down the formal meaning of the latter.

**Definition 3.** An RCM-CF  $(v, \tilde{v}, r)$  rationalizes an SCF-RT (p, f) if

(i) 
$$p(x,y) = \operatorname{Prob}[\tilde{v}(x,y) > 0]$$
 holds for all  $(x,y) \in D$ , and

(ii)  $F(x,y)(t) = \operatorname{Prob}[\tilde{t}(x,y) \le t \mid \tilde{v}(x,y) > 0]$  holds for all t > 0 and all  $(x,y) \in D$ .

In other words, an RCM-CF (the model) rationalizes an SCF-RT (the data) if it reproduces both the choice frequencies and the conditional response time distributions in the latter. Obviously, fixing the set D, every RCM-CF predicts an SCF-RT through the equations given in (i) and (ii) above. Thus an alternative definition is that an RCM-CF rationalizes an SCF-RT if the predicted SCF-RT coincides with the actual SCF-RT. We say that an SCF-RT is *rationalizable* if there exists an RCM-CF that rationalizes it. Note that an SCF-RT might be rationalizable by an RCM-CF even though it is not rationalizable by a RUM-CF.

The last definition captures preference revelation in a potentially nontransitive framework.

**Definition 4.** A rationalizable SCF-RT reveals that x is preferred to y if all RCM-CFs that rationalize it satisfy  $v(x, y) \ge 0$ . It reveals that x is strictly preferred to y if all RCM-CFs that rationalize it satisfy v(x, y) > 0.

The results in Alós-Ferrer, Fehr, and Netzer (2021) make use of the following technical concept. Given two cumulative distribution functions  $H_1$  and  $H_2$  on  $\mathbb{R}_+$ and a constant  $q \geq 1$ , we say that  $H_1$  *q*-first-order stochastically dominates  $H_2$ (also written  $H_1$  *q*-FSD  $H_2$ ) if

$$H_1(t) \le q \cdot H_2(t)$$
 for all  $t \ge 0$ .

If the inequality is strict for some t, then  $H_1$  strictly q-first-order stochastically dominates  $H_2$  (written  $H_1$  q-SFSD  $H_2$ ). For q = 1, these concepts coincide with the standard notions of first-order stochastic dominance, but they are weaker when q > 1. Clearly, q-FSD implies q'-FSD whenever  $q \leq q'$ .

The following Theorem generalizes the main result of Alós-Ferrer, Fehr, and Netzer (2021) for the case of nontransitive preferences.

**Theorem 1.** Consider random choice models. A rationalizable SCF-RT (p, f) reveals that x is preferred to y if F(y, x) q-FSD F(x, y), and that x is strictly preferred to y if F(y, x) q-SFSD F(x, y), for q = p(x, y)/p(y, x).

A direct, self-contained proof is in Appendix A. An alternative proof can be adapted from the proof of Theorem 1 in Alós-Ferrer, Fehr, and Netzer (2021) replacing u(x) - u(y) with v(x, y).

Remark 3. Note that the condition that F(y, x) q-FSD F(x, y) implies that  $q \ge 1$ (e.g., by taking limits as  $t \to \infty$ ) even if this were not stated as part of the definition. That is, if Theorem 1 reveals a (nontransitive) preference for x over y, if follows that  $p(x, y) \ge 1/2$ , i.e. preferences cannot be revealed "against" choice frequencies, but choice frequencies do not imply preference revelation. This is important because most evidence for nontransitivities has been evaluated on the basis of Weak Stochastic Transitivity, which is stated in terms of choice frequencies.

Suppose that a dataset seems to point at nontransitive behavior, e.g. due to a violation of Weak Stochastic Transitivity. That is, the data identify a cycle of, say, three alternatives x, y, z such that  $p(x, y) \ge 1/2$ ,  $p(y, z) \ge 1/2$ , and p(z, x) > 1/2. While a researcher might take this as evidence of a transitivity violation, another

researcher might argue that those population frequencies have arisen due to noise (as in a random utility model) even though underlying preferences are transitive. Until now, there was no way out of this debate, as there was no tool capable of determining whether a violation of Weak Stochastic Transitivity was due to noise or not.

Theorem 1 provides the missing tool. Suppose three alternatives x, y, z build a violation of Weak Stochastic Transitivity for a given decision maker, as described above. If the dataset includes response times, one can apply the "Time Will Tell" (TWT) method derived from Theorem 1 to each of the pairs (x, y), (y, z), and (x, z). In view of Remark 3, only two outcomes are possible. In the first case, preferences are revealed for all three pairs, which necessarily reveals a nontransitive preference cycle (except in the knife-edge case of full indifference). In this case, Theorem 1 shows that any model of choice explaining the observed data needs to entail a true nontransitive cycle, independently of the model of noise assumed (and, in particular, whether noise is symmetric or not). That is, in this case, a truly nontransitive cycle is revealed for at least one of the pairs. In the second case preferences fail to be revealed for at least one of the pairs. In this case, the researcher is not entitled to conclude that the observed violation of Weak Stochastic Transitivity is actually due to a nontransitivity in underlying preferences; in other words, the observed violation might well be due to noise.

## **3** Empirical Evidence for Nontransitivity

#### **3.1** Description of the Datasets

In this section we apply Theorem 1 to two existing datasets, both of which were specifically collected to study transitivity violations. The selected datasets, from Davis-Stober, Brown, and Cavagnaro (2015) (DSBC) and Kalenscher et al. (2010) (KTHDP), are ideal for our purposes because they include response times and every participant repeated every choice a reasonable number of times.

In the dataset of DSBC, N = 60 subjects made binary choices among different lotteries in a 2 × 2 within-subject design. Specifically, the experiment varied the display format of the lotteries (pies vs. bars) and whether participants faced a time constraint when making their choices or not (4 seconds vs. no time limit). The choice pairs were drawn from two sets of five lotteries each, with one lottery common to the two sets. All possible combinations of the lotteries within each set were implemented, giving rise to 20 distinct choice pairs (see Figure 1, left). Each of these pairs was repeated 12 times in each of the 4 possible conditions, for a total



Figure 1: List of lotteries and implemented pairwise comparisons in Davis-Stober, Brown, and Cavagnaro (2015) (left) and Kalenscher et al. (2010) (right).

of  $12 \times 4 \times 20 = 960$  choices per participant. Each participant took part in two sessions, with two (randomly allocated) combinations of time pressure and display format manipulations in each of them. Choices were incentivized (one decision from each condition was randomly selected and paid, in addition to a show-up fee).

In the dataset of KTHDP, N = 30 subjects made binary choices among five different lotteries.<sup>6</sup> All combinations of the lotteries where implemented (see Figure 1, right). Each of the 10 resulting choice pairs was repeated 20 times, for a total of 200 trials per participant. Participants needed to decide within 4 seconds, with missed time limits resulting in a missed trial. Each participant took part in a single, individual-level session while being scanned in an fMRI machine. Choices were incentivized (with dummy dollars translated into Euro with a conversion rate of 100:1), with one randomly-selected decision paid in addition to a show-up fee.

In addition to the presence of repetitions, the measurement of response times, and the fact that they were collected to study transitivity violations, the two datasets are also interesting for other reasons. First, all lotteries involve only one non-zero outcome and hence can be presented with only two variables (a single outcome and its probability). This makes alternatives easy to compare for participants. Second, all magnitudes in each of the experiments are comparable (without extreme differences), hence mitigating possible concerns regarding range or outlier effects. Third, none of the lotteries involves probabilities close to zero or one, which are known to generate their own regularities.

### 3.2 Revealed Transitivity Violations

We now investigate transitivity violations in the two datasets. A *Revealed Tran*sitivity Violation (RTV) exists in the data whenever application of Theorem 1

<sup>&</sup>lt;sup>6</sup>Further 240 filler lotteries were used, but they all were paired in a way which involved dominated choices, and hence are not interesting for our purposes.

reveals a preference cycle with  $x_1 \succeq x_2 \succeq \ldots \succeq x_n$  and  $x_n \succ x_1$ . An RTV reveals a nontransitivity which cannot be explained by noise, and thus disentangles noise from genuine transitivity violations. Since, within the universe of RCMs, preferences revealed by our method are independent of any assumptions (i) about noise and (ii) about functional forms regarding v(x, y), we conclude that transitivity violations identified by our method cannot be due to any form of noise or functional form assumption regarding v.

If subjects had transitive preferences, empirically-observed violations of the conditions previously used in the literature, e.g. Weak Stochastic Transitivity would be due to noise. Then, once we identify the set of cycles of alternatives for which choices reveal preferences, the subset of RTVs should be empty. On the other hand, if transitivity violations arise from a genuinely nontransitive preference, then the subset of cycles of alternatives where all preferences are revealed should still contain violations of transitivity, i.e. RTVs.

We start by applying our method to reveal preferences. That is, for every cycle of alternatives

$$(x_1, x_2, \dots, x_n, x_{n+1} = x_1)$$

and every pair  $(x_i, x_{i+1})$  of subsequent alternatives along the cycle, we compute the choice proportions and the response time densities and check whether the condition in Theorem 1 holds.<sup>7</sup> For DSBC, the average percentage of choices at the subject level for which the method reveals preferences is 56.67% (median 57.22%, SD= 6.15, min 44.66%, max 68.31%), while for KTHDP is 77.00% (median 75.00%, SD=15.57, min 40.00%, max 100.00%). Thus, in our datasets, the method reveals preferences often enough for an analysis of revealed nontransitivities to be conducted.<sup>8</sup>

<sup>&</sup>lt;sup>7</sup>To reveal preferences using the TWT method, we need to estimate the density of the distribution of response times. As in Alós-Ferrer, Fehr, and Netzer (2021), the kernel density estimates were performed in *Stata* using the *akdensity* function, which delivers CDFs as output. We estimate the distribution of log-transformed response times to avoid boundary problems. The estimates use an Epanechnikov kernel with optimally chosen non-adaptive bandwidth. If an option is chosen only once (and hence only one response time is available) an optimal bandwidth cannot be determined endogenously, so we set it to 0.1, yielding a distribution function close to a step function at the observed response time.

<sup>&</sup>lt;sup>8</sup>For DSBC participants, we find no differences in the proportion of revealed preferences depending on whether subjects were under time pressure or not (56.13% vs. 57.16%; WRS, N = 60, z = -0.942, p = 0.3505). This is important, as it suggests that even though the method relies on response times, its capacity to reveal preferences is not affected by (reasonable) time limits, and hence it is robust with respect to such manipulations. In Appendix B we take advantage of the manipulations in DSBC (time pressure and graphical formats) to further investigate the robustness of the results.

Say that a cycle of alternatives  $(x_1, x_2, \ldots, x_n, x_{n+1} = x_1)$  is a revealed cycle if all preferences along the cycle are revealed, i.e. for every pair  $(x_i, x_{i+1})$  of subsequent alternatives along the cycle,  $i = 1, \ldots, n$ , the method reveals either  $x_i \succeq x_{i+1}$ or  $x_{i+1} \succeq x_i$  (or the corresponding strict preferences). For example, a cycle of alternatives  $(x_1, x_2, x_3, x_1)$  could be a revealed cycle if the method revealed  $x_1 \succeq x_2$ ,  $x_2 \succeq x_3$  and  $x_1 \succeq x_3$  (which is compatible with transitivity), but it would also be a revealed cycle if the method revealed  $x_1 \succeq x_2, x_2 \succeq x_3$  and  $x_3 \succ x_1$  (which violates transitivity and hence is an RTV).

The proportion of revealed cycles is obviously smaller than the proportion of choices for which preferences are revealed, since all preferences along a cycle of alternatives must be revealed for the cycle to be revealed. For DSBC, 20.82% of cycles of alternatives are revealed (median 22.08%, SD=7.61, min 0.00%, max 32.08%), and the number is 54.25% (median 60.00%, SD=25.00, min 0.00%, max 100.00%) for KTHDP.

For each individual in each of the two datasets, we identified the set of revealed cycles of alternatives and then checked for which of those the revealed preferences were nontransitive. We found sizeable sets of Revealed Transitivity Violations. The average individual proportion of RTVs, that is, the proportion of all revealed cycles of alternatives which are RTVs, is 19.24% (SD=8.48) in DSBC and 13.83% (SD=15.41) in KTHDP. Figure 2 plots the distribution of subject-level proportions of RTV over all revealed cycles of alternatives for both datasets, revealing considerable heterogeneity. For DSBC, the individual proportion of RTVs ranges from 2.25% to 40.00%, with a median of 19.69%. For KTHDP, the individual proportion of RTVs ranges from 0.00% to 50.00%, with a median of 9.09%. This also implies that Revealed Transitivity Violations are pervasive in the two datasets, since fifty percent of individuals exhibit 19.69% (9.09%) or more RTVs in the DSBC data (KTHDP data).

Our results show that, when cycles of alternatives are revealed, genuinely nontransitive preferences exist in a substantial number of cases. For those cycles of alternatives for which not all preferences along the cycle are revealed, we cannot unambiguously determine whether preferences are nontransitive. However, there appears to be little reason to believe that the share of genuine nontransitivities should be different for those cycles of alternatives for which not all preferences are revealed. As an indication of this, in the next subsection we will show that the percentage of RTVs over all revealed cycles of alternatives is not significantly different from the percentage of WST violations among all cycles of alternatives. In any case, the size of the set of RTVs we identify is a lower bound on genuine



Figure 2: Distribution of the individual proportions of RTVs over all cycles of alternatives where all preferences are revealed. Violin plots show the median, the interquartile range and the 95% confidence intervals as well as rotated kernel density plots on each side. Fifty percent of individuals exhibit 19.69% (9.09%) or more Revealed Transitivity Violations in the DSBC data (KTHDP data).

transitivity violations. The important realization is that this lower bound is not zero, that is, genuinely nontransitive preferences are present in both datasets.

In summary, our approach identifies transitivity violations which *cannot* be explained by noise (at least within the framework of RCMs), and hence the set of violations we identify stand on conceptually solid ground as a demonstration that nontransitivities in the data do occur.

### 3.3 Comparison Between RTVs and WST Violations

Up to now, the empirical literature has predominantly looked at violations of Weak Stochastic Transitivity (WST) to study transitivity violations. This property states that for all  $x_1, x_2, x_3$  such that  $p(x_1, x_2) \ge 1/2$  and  $p(x_2, x_3) \ge 1/2$ , it must follow that  $p(x_1, x_3) \ge 1/2$ . Other concepts of transitivity in a stochastic setting exist, as e.g. strong stochastic transitivity (where the implication is that  $p(x_1, x_3) \ge \max\{p(x_1, x_2), p(x_2, x_3)\}$ ), moderate stochastic transitivity (which replaces the maximum with the minimum in the previous implication), or the triangle inequality (recall Section 2). See Fishburn (1998) for an overview. However, WST remains a natural choice as a benchmark given our theoretical framework, and we will use it for ease of comparison to the literature.



Figure 3: Distributions of the individual proportions of Weak Stochastic Transitivity violations, computed over *all* cycles of alternatives in the datasets. Violin plots show the median, the interquartile range and the 95% confidence intervals as well as rotated kernel density plots on each side. Fifty percent of individuals exhibit 20.61% (15.69%) or more WST violations in the DSBC data (KTHDP data).

Figure 3 displays violin plots for the subject-level proportion of WST violations computed over all cycles of alternatives, in both datasets. For DSBC, we observe that, on average across individuals, 20.77% of all cycles of alternatives in the dataset result in WST violations (median 20.61%, SD=5.28, min 9.04%, max 34.57%), while in KTHDP the average is 15.42% (median 15.69%, SD=13.93, min 0.00%, max 49.02%). These proportions are roughly representative of results in the literature, and indicate a sizeable percentage of transitivity violations if WST is used as a criterion.

The concept of RTV is more stringent than violations of WST. If a nontransitive preference cycle  $x_1 \succeq x_2 \succeq x_3 \ldots \succ x_1$  is revealed by an application of Theorem 1, it follows from Remark 3 that this cycle also entails a WST violation. Hence, the concepts are naturally nested, that is, every RTV is necessarily a WST violation. In principle, however, some WST violations might not be RTVs. We are hence interested in the proportion of empirical WST violations which are RTVs, and for which the researcher is thus actually justified to infer the existence of genuinely nontransitive preferences, i.e., for which the nontransitivity cannot be explained by any model of noise.

It turns out that, in practice, every WST violation for which all preferences along the cycle of alternatives are revealed is actually an RTV. The argument is as follows. Fix a cycle of alternatives,  $(x_1, x_2, \ldots, x_n, x_{n+1} = x_1)$ , that violates WST. Apply Theorem 1 to the data for every binary choice along the cycle,  $\{x_i, x_{i+1}\}$ , i = 1, ..., n. If all preferences along the cycle of alternatives are (strictly) revealed, again by Remark 3 the cycle must in practice be an RTV. For, if a preference between x and y is revealed and p(x, y) > 1/2, only a preference of x over y can be revealed.<sup>9</sup>

In contrast, if any of the preferences along a cycle of alternatives is not revealed (neither  $x_i \succeq x_{i+1}$  nor  $x_{i+1} \succeq x_i$ ), then no conclusion can be drawn as to whether the cycle of alternatives entails a transitivity violation or not. Even if the cycle shows a WST violation, the researcher is not entitled to conclude that a true transitivity violation exists, as the choice proportions might be due to noise.

To compare revealed nontransitivities according to Theorem 1 with violations of WST, we first compute the proportion of all WST violations that are actually RTVs. By the comment above, those coincide with the WST violations where the cycle of alternatives is revealed. We obtain that, on average across subjects, 19.24% of all WST violations are actually RTVs for DSBC (median 17.71%, SD=9.56, min 4.35%, max 43.42%). The average is 39.58% for KTHDP (median 29.41%, SD=32.60, min 0.00%, max 100.00%). This means that for 19.24% of all WST violations for DSBC, and 39.58% for KTHDP, application of Theorem 1 reveals transitivity violations that uncover genuinely nontransitive preferences and that cannot be due to noise. For the remaining (non-RTV) observed WST violations, it cannot be discarded that they may be due to some sort of underlying noise, but it also cannot be discarded that they may be due to genuinely nontransitive preferences.

We would also like to quantify the *size* of the set of transitivity violations at the individual level, and compare it to previous measurements using WST. Since the number of RTVs for a given subject is necessarily smaller than the individual number of WST violations (Remark 3), a direct comparison would just mechanically show that there are less RTVs than WST violations. Thus, we compare the proportions relative to the relevant sets in each case. That is, we compare the proportion of RTVs in relation to cycles of alternatives with revealed preferences only (as discussed in Section 3.2 and illustrated in Figure 2) with the proportion of WST violations in relation to all cycles of alternatives, revealed or not (as illus-

<sup>&</sup>lt;sup>9</sup>In principle, it is possible that p(x, y) > 1/2 but the TWT method only reveals a weak preference, which would make it possible to have a WST violation which cannot be concluded to be an RTV (instead of an indifference cycle). It is also possible that a WST violation involves p(x, y) = 1/2 and the TWT method reveals a strict preference either way, hence allowing for WST violations where all preferences are (even strictly) revealed but a nontransitive cycle does not arise. In practice, such knife-edge cases are empirically rare and they never occurred in our data.



Figure 4: Distribution of the proportion of subjects displaying RTVs (on the left; relative to the set of subjects for which preferences are revealed in the corresponding cycle of alternatives) and WST violations (on the right; relative to all subjects) per each cycle of alternatives.

trated in Figure 3). These proportions are not mechanically related to each other, and hence this procedure allows a fair comparison of the magnitudes of transitivity violations as suggested by RTV and WST.

If violations of WST would mainly arise from choices which are not revealed, we should see a sharp decrease in the proportion of transitivity violations according to RTV when computed in this way (since non-revealed cycles of alternatives are excluded), when compared to WST violations. On the contrary, if violations of WST are orthogonal to whether preferences are revealed by Theorem 1 or not, the overall proportion of transitivity violations according to WST and to RTV computed in this way should be unaffected.

Recall that the individual proportion of RTVs in DSBC was 19.24%, compared to a proportion of 20.77% of WST violations for the overall sample. The difference is small, and a Wilcoxon Rank-Sum test reveals no significant differences at the 5% level (N = 60, z = -1.811, p = 0.0705). In KTHDP the proportion of RTVs was 13.83%, compared to a 15.42% of WST violations for the overall sample. Again there are no significant differences at the 5% level (WRS, N = 29, z = -1.847, p = 0.0657). Hence, the evidence is aligned with the interpretation that transitivity violations might be orthogonal to whether preferences are revealed by Theorem 1 or not. However, of course, this is just suggestive evidence and one cannot conclude that WST violations where preferences are not revealed are actually transitivity violations.

### **3.4** Characteristics of Nontransitive Cycles

Our analysis above shows the existence of transitivity violations which are not due to noise. A natural question is whether specific collections of lottery choices give rise to such violations often. To answer this question, we reanalyze the data taking individual cycles of alternatives as the unit of observation. That is, in each dataset and for each cycle of alternatives, we compute the percentage of participants who display either an RTV or a WST violation.

The left-hand panel of Figure 4 represents the distribution of the proportion of participants displaying RTVs across cycles of alternatives, computed over all participants for which the cycle was revealed (DSBC: mean 18.93%, median 17.65%, SD=11.69, min 0.00%, max 60.00%; KTHDP: mean 11.22%, median 0.00%, SD=20.55, min 0.00%, max 100.00%). The right-hand panel shows the distribution of the proportion of participants displaying WST violations across cycles of alternatives, computed over all participants (DSBC: mean 20.56%, median 21.67%, SD=6.51, min 0.00%, max 36.67%; KTHDP: mean 15.42%, median 0.00%, SD=20.03, min 0.00%, max 80.00%).<sup>10</sup> As can be seen in the figure, the support of the distributions range from zero to relatively large numbers. That is, some cycles of alternatives involve next to no violations while others involve nontransitive choices for a sizeable part of the experiment's participants.

To single out which constellations of choices produce a particularly large proportion of violations, we then look at the cycles of alternatives which entail the most transitivity violations. Table 1 lists the ten cycles (for both datasets) with the largest proportion of RTVs, computed as the percentage of people for which the cycle of alternatives was revealed who displayed an RTV. For DSBC, those range from 48% to 58%, and all of them correspond to WST violations for at least a quarter of the sample. Notably, all ten cycles involve just the five following lotteries (out of the nine in the experiment), which correspond to the left-hand subset in Figure 1(left).

$$x_{1} = \left(\$25.43, \frac{7}{24}\right), \ x_{2} = \left(\$24.16, \frac{8}{24}\right), \ x_{*} = \left(\$22.89, \frac{9}{24}\right),$$
$$x_{3} = \left(\$21.62, \frac{10}{24}\right), \ x_{4} = \left(\$20.35, \frac{11}{24}\right)$$

The fact that the most common transitivity violations in DSBC all involve the left-hand subset in Figure 1(left), and none of them involves the lotteries in the right-hand set, is particularly revealing. The differences in outcomes across

<sup>&</sup>lt;sup>10</sup>Note that for DSBC the average is computed over  $N = 60 \times 4$  observations, as each participant made the same choices in four different conditions.

Table 1: The ten cycles in DSBC and KTHDP with the most transitivity violations. The second column indicates the proportion of experimental participants displaying the RTV given in the first column, computed over all participants for which the corresponding cycle of alternatives was revealed (numbers in brackets indicate how the proportion is computed). The third column indicates the proportion of participants (out of  $4 \times 60$  for DSBC, out of 30 for KTHDP) displaying a WST violation for the cycle of alternatives.

Cycle	People with RTV	People with WST
DSBC		
$x_* \succ x_4 \succ x_3 \succ x_*$	$58.33\% \ (28/48)$	30.00%~(72)
$x_* \succ x_4 \succ x_3 \succ x_2 \succ x_*$	54.55% (24/44)	35.00%~(84)
$x_* \succ x_1 \succ x_4 \succ x_3 \succ x_*$	50.00% (12/24)	25.00%~(60)
$x_* \succ x_4 \succ x_2 \succ x_3 \succ x_*$	$53.85\% \ (28/52)$	31.67%~(76)
$x_* \succ x_2 \succ x_3 \succ x_4 \succ x_*$	57.14% (32/56)	33.33%~(80)
$x_* \succ x_2 \succ x_3 \succ x_1 \succ x_4 \succ x_*$	$47.62\% \ (40/84)$	36.67%~(88)
$x_* \succ x_4 \succ x_1 \succ x_3 \succ x_2 \succ x_*$	50.00% (24/48)	35.00%~(84)
$x_* \succ x_1 \succ x_4 \succ x_2 \succ x_3 \succ x_*$	50.00% (12/24)	26.67% (64)
$x_* \succ x_4 \succ x_1 \succ x_2 \succ x_3 \succ x_*$	53.85% (28/52)	35.00% (84)
$x_* \succ x_4 \succ x_2 \succ x_1 \succ x_3 \succ x_*$	57.14% (32/56)	33.33%~(80)
KTHDP		
$y_2 \succ y_4 \succ y_5 \succ y_2$	$66.67\% \ (12/18)$	40.00% (12)
$y_2 \succ y_3 \succ y_5 \succ y_4 \succ y_2$	$100.00\% \ (6/6)$	60.00%~(18)
$y_3 \succ y_1 \succ y_2 \succ y_4 \succ y_3$	$66.67\% \ (12/18)$	60.00%~(18)
$y_3 \succ y_4 \succ y_5 \succ y_1 \succ y_3$	$66.67\% \ (12/18)$	40.00% (12)
$y_4 \succ y_1 \succ y_2 \succ y_3 \succ y_4$	$66.67\% \ (12/18)$	60.00%~(18)
$y_1 \succ y_4 \succ y_3 \succ y_2 \succ y_5 \succ y_1$	75.00% (9/12)	30.00%~(9)
$y_3 \succ y_1 \succ y_2 \succ y_4 \succ y_5 \succ y_3$	$66.67\% \ (12/18)$	60.00%~(18)
$y_3 \succ y_4 \succ y_5 \succ y_1 \succ y_2 \succ y_3$	66.67%~(12/18)	40.00% (12)
$y_4 \succ y_1 \succ y_2 \succ y_3 \succ y_5 \succ y_4$	$66.67\% \ (12/18)$	60.00%~(18)
$y_4 \succ y_5 \succ y_2 \succ y_1 \succ y_3 \succ y_4$	66.67% (12/18)	40.00% (12)

similar lotteries in the right-hand set are noticeably larger (between \$3.13 and \$4.96) than those for the other set (all \$1.27), while differences in probabilities are always 1/24 in both sets. That is, the most frequent nontransitivities involve choices whose evaluations are presumably closer, i.e. such that the strength of preference is smaller. If one used WST or a similar measure as a criterion for detecting nontransitivities, standard psychometric effects (error rates are larger for closer valuations) would suggest that the increase in nontransitivities is merely due to increased noise. However, our approach through RTVs has disentangled preferences from noise. Thus, the data suggests that the increase in nontransitivities is nontransitivities is due to the fact that evaluations are close, but not because this results in noisier choices. Rather, it appears that empirical transitivity violations are more



Figure 5: Graphical representation of some of the most common preference cycles in the datasets. All lotteries have a single non-zero outcome, depicted in the (outcome, probability) space. Arrows indicate preference, i.e.  $x \to y$  means  $y \succ x$ . The two upper pictures are from the DSBC data, the two lower ones from KTHDP.

frequent when they result from a gradual chain of small changes in the options. Specifically, many of the examples in Table 1 suggest that small tradeoffs, which are possible when lottery attributes are close enough, do not scale up monotonically. For example, consider the shortest cycle for DSBC in Table 1, which is also the one with the largest proportion of RTV violations,  $x_* \succ x_4 \succ x_3 \succ x_*$ . Twice along this cycle  $(x_4 \succ x_3 \succ x_*)$ , the decision maker accepts a one-step decrease in monetary payoff (\$1.27) in exchange for a one-step increase in probability (1/24). Then, however, the same decision maker accepts a two-steps decrease in probability (2/24) in exchange for a two-step increase in monetary payoff (\$2.54). The exact same phenomenon appears in the cycles  $x_* \succ x_4 \succ x_3 \succ x_2 \succ x_*$ ,  $x_* \succ x_2 \succ x_3 \succ x_4 \succ x_*$ , and (rewritten)  $x_1 \succ x_4 \succ x_3 \succ x_* \succ x_1$ , with three one-step tradeoffs being reversed by a three-step tradeoff in the opposite direction, and similar but more complex patterns can be seen in the longer cycles. The two top panels of Figure 5 give a graphical representation of two of these examples. For KTHDP, the proportion of RTVs among revealed cycles of alternatives for the ten topmost ones is always above two thirds. corresponding to between 40%and 60% WST violations in the overall sample. The cycles involve all five lotteries in KTHDP,

$$y_1 = (\$500, 0.29), y_2 = (\$475, 0.32), y_3 = (\$450, 0.35),$$
  
 $y_4 = (\$425, 0.38), y_5 = (\$400, 0.41)$ 

The same phenomenon is observed in several of the KTHDP cycles. For example, in the cycle  $y_4 \succ y_1 \succ y_2 \succ y_3 \succ y_4$ , three times in a row the decision maker accepts a one-step reduction in probability (0.03) in exchange for a one-step increase in monetary payoff (\$25), but then undoes it by accepting a three-step reduction in monetary payoff (\$75) in exchange for a three-step increase in probability (0.09). A similar pattern can be seen in the cycle  $y_3 \succ y_4 \succ y_5 \succ y_1 \succ y_3$ , and similar phenomena appear in several of the longer cycles. The two bottom panels of Figure 5 give a graphical representation of two of these examples.

### 4 Previous Evidence on Nontransitivities

Systematic empirical evidence on transitivity violations goes back to May (1954), who collected choice data for pairs of hypothetical marriage partners described according to intelligence, looks, and wealth. However, the evidence was in the form of nontransitive cycles when the choices of all participants were aggregated, and hence reduces to the well-known observation that Condorcet cycles might appear when transitive preferences are aggregated. Actual evidence on nontransitive preferences at the individual level was first presented by Tversky (1969), using binary choices among simple monetary lotteries and also among hypothetical job applicants. Almost all participants displayed at least one weak stochastic transitivity violation. These descriptive findings were subsequently replicated (Montgomery, 1977; Lindman and Lyons, 1978; Budescu and Weiss, 1987), but the later literature cast doubts on the strength of the evidence. Iverson and Falmagne (1985) reanalyzed the data of Tversky (1969) and argued that the evidence was compatible with transitive preferences and noisy choices. They further criticized the original work's statistical analysis and found that only one of Tversky's participants significantly violated transitivity using likelihood ratio tests, which of course implicitly assume (a particular shape of) noise in actual choices. It has also been criticized that participants in Tversky (1969) were pre-selected.

Later empirical demonstrations of nontransitive choice have been similarly criticized, the core argument frequently being that data might be compatible with transitive but noisy behavior. For example, Loomes, Starmer, and Sugden (1989, 1991) argued that the classical preference reversal phenomenon (Lichtenstein and Slovic, 1971; Grether and Plott, 1979; Tversky and Thaler, 1990), where choices systematically contradict elicited (monetary) valuations, might be due to transitivity violations. That is, actual nontransitive choices might build a preference cycle where a lottery A is preferred to a lottery B and this second lottery is (of course) revealed indifferent to its own certainty equivalent, but the latter is strictly preferred to the certainty equivalent of A. However, Sopher and Gigliotti (1993), in a replication of Loomes, Starmer, and Sugden (1991), estimated an econometric model of choice with a specific structure of random errors, and could not reject the null hypothesis of transitive preferences and noisy choices. On the other hand, Starmer and Sugden (1998) further replicated the work in Loomes, Starmer, and Sugden (1991) and observed the same cycling asymmetries, suggesting that those are unlikely to be due to noise.

Regenwetter, Dana, and Davis-Stober (2010, 2011) argued that violations of transitivity are better analyzed through violations of the triangle inequality, p(x, y)+  $p(y, z) - p(x, z) \leq 1$  (Marschak, 1960; Block and Marschak, 1960), instead of violations of Weak Stochastic Transitivity. Those works found that the triangle inequality is often satisfied in (many) existing publications, even when WST is violated. Cavagnaro and Davis-Stober (2014) argued that the the behavior of the tested populations can be best described by a mixture of different models of choice, with the resulting estimates suggesting that the majority (but not all) of the people might satisfy transitivity.

Recent studies, however, keep bringing up empirical evidence which might indicate violations of transitivity. Butler and Pogrebna (2018) provided new empirical evidence using both WST and the triangle inequality. Their evidence showed that cycles can be the modal preference patterns over simple lotteries even after considering transitive, stochastic models. Their choices were designed to reproduce the "paradox of nontransitive dice," where a heuristic which favors the option (within a pair) with the largest probability to beat the alternative produce cyclical choices (Savage Jr., 1994). As in previous cases, however, critical work was close on the heels of Butler and Pogrebna (2018). Specifically, Birnbaum (2022) argued that tests of Weak Stochastic Transitivity and the triangle inequality do not provide a method to compare transitive and nontransitive models that allow mixtures of preference patterns and random errors. Birnbaum (2020) re-analyzed the data of Butler and Pogrebna (2018) using a "true and error" model (recall Remark 1) and still found evidence for significant transitivity violations, but the latter are incompatible with the explanation proposed by Butler and Pogrebna (2018) (see, however, Butler, 2020).

Observed violations of transitivity, whatever their origin, seem to be relatively stable. For example, Davis-Stober et al. (2019) and Park et al. (2019) report that neither age nor, surprisingly, alcohol intoxication seem to play a major role in transitivity violations for decisions under risk. Non-transitive choices have also been observed in other domains. Li and Loomes (2022) report a substantial level of nontransitive choices in respondents' intertemporal decisions, i.e. decisions between pairs of monetary amounts to be received at different points in time (see also Tversky, Slovic, and Kahneman, 1990). Birnbaum and Schmidt (2008) find some evidence for transitivity violations for choices under uncertainty, albeit for a limited number of participants. Moreover, people frequently violate transitivity when choosing between multi-attribute consumers' products (sound systems, flight plans, and software packages; e.g. Lee, Amir, and Ariely, 2009; Müller-Trede, Sher, and McKenzie, 2015; Lee et al., 2015). Naturally, there are also some domains where evidence is less robust, e.g. for hypothetical alternative treatments in the health domain (Schmidt and Stolpe, 2011), or when choosing between potential sexual partners (Hatz et al., 2020). Finally, violations of transitivity are no exception to the rule that few behaviors, if at all, are uniquely human: honey bees and gray jays have been shown to violate transitivity when foraging for food (Shafir, 1994; Waite, 2001), and Túngara frogs behave nontransitively when making mating choices (Natenzon, 2019).

A few contributions have also tested for particular forms of transitivity violations. For instance, Starmer and Sugden (1998) documented transitivity violations which might contradict a number of explanations, including regret theory. Starmer (1999) tested for transitivity violations which might be compatible with the "editing phase" of original prospect theory (Kahneman and Tversky, 1979). We refer the reader to Starmer (2000) for a discussion.

We remark that, in this work, we follow the literature which favors testing transitivity violations using binary choice probabilities instead of choice patterns (e.g., Birnbaum, 2020). For a discussion of these two alternative approaches, we refer the reader to Cavagnaro and Davis-Stober (2014) and Butler (2020). This is a natural choice given our theoretical framework, which reveals preferences using binary choices. Moreover, the two approaches have been shown to provide largely consistent evidence (e.g., Butler and Pogrebna, 2018; Birnbaum, 2020).

Part of the previous literature has concentrated on fitting data to particular models and comparing the fit of transitive and nontransitive models in "horse race" exercises. This approach is incomparable to ours, since we identify choice patterns that cannot be explained by *any* model of transitive preferences with behavioral noise, in the sense of Section 2. However, the overall message of our findings, namely that there are persistent transitivity violations but a majority of choice combinations respect transitivity, is compatible with the recent literature, which finds consistent support for non-transitive models of choice.

For example, using true and error models (recall Remark 1), Birnbaum (2022) reports most participants in the experiment of Butler and Pogrebna (2018) made decisions consistent with transitivity, but 7 out of 22 (about 30%) showed evidence of intransitive preference patterns at least part of the time. Brown, Davis-Stober, and Regenwetter (2015), reanalyzing the data from KTHDP, find that 7 out of 30 participants were best described by models which allow for intransitivities, while 8 participants were best explained by a trembling hand model (again, recall Remark 1) and 6 other participants were best explained by a stochastic preference model (hence equivalent to a classical, additive RUM). Ranyard et al. (2020), reanalyzing the additive difference model of Tversky, 1969) was a good fit for 14 of the 30 participants.

Needless to say, this section is not and cannot be a complete review of the literature on transitivity violations. We refer the reader to the recent review of Ranyard et al. (2020), who also estimated a simplified additive-difference model based on the processing of alternative dimensions (following Tversky, 1969). Similarly to Regenwetter, Dana, and Davis-Stober (2010, 2011), Ranyard et al. (2020) argue that people seem to behave according to different models of choice, and many individuals are best explained by models which do violate transitivity.

## 5 Discussion

Are economic choices transitive? A long-standing discussion in economics has addressed this fundamental issue. A negative answer would have the power to shake the very foundations of applied microeconomic analysis, and empirical evidence to this effect has been, understandably, subjected to detailed scrutiny. In particular, evidence in favor of transitivity violations has been systematically criticized as deriving from behavioral noise. In this paper we provide a new method which allows to reveal "preferences" even when they are not transitive, disentangling them from behavioral noise. the method is based on a generalization of recent preference revelation results which use both choice frequencies and response times. We apply this method to two distinct datasets and find conclusive evidence that, even when one fully disentangles behavioral noise from underlying preferences, transitivity violations are reduced but do not disappear. In this sense, transitivity violations are not a mere artifact of the analysis or a consequence of behavioral noise, but rather an actual feature of human behavior.

We view our results as a call for attention. The fundamental assumption that economic choices can be explained by transitive preferences is useful but wrong, even if one allows for behavioral noise. Any model that assumes that people evaluate alternatives independently of other alternatives and tend to choose the option with the higher overall evaluation satisfies transitivity, and hence stands on somewhat-shaky grounds. This includes of course normative models as expected utility theory, but also descriptive models built to accommodate behavioral anomalies as cumulative prospect theory (Tversky and Kahneman, 1992) and many others. Ultimately, applied economics needs to embrace models allowing for violations of transitivity. Those are still sparse (e.g. Shafer, 1974; Loomes and Sugden, 1982; Fishburn, 1982, 1986; Bordalo, Gennaioli, and Shleifer, 2012), but include some prominent examples as salience theory and regret theory.

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# APPENDIX

# A Proof of Theorem 1

*Proof.* Let an SCF-RT (p, f) including data on a choice (x, y) be rationalized by an RCM-CF  $(v, \tilde{v}, r)$ . Let G(x, y) denote the cumulative distribution function of g(x, y), the density function of  $\tilde{v}(x, y)$ .

First we remark that

$$p(y,x)F(y,x)(t) - p(x,y)F(x,y)(t) = G(x,y)(r^{-1}(t)) + G(x,y)(-r^{-1}(t)) - 1.$$

To see this, note that, by Definitions 1, 2, and 3, p(y,x) = G(x,y)(0), p(x,y) = 1 - G(x,y)(0),  $F(x,y) = (1 - G(x,y)(r^{-1}(t))/(1 - G(x,y)(0))$ , and  $F(y,x)(t) = G(x,y)(-r^{-1}(t))/G(x,y)(0)$ . Thus,

$$p(y,x)F(y,x)(t) - p(x,y)F(x,y)(t) = G(x,y)(-r^{-1}(t)) - (1 - G(x,y)(r^{-1}(t))) = G(x,y)(r^{-1}(t) + G(y,x)(-r^{-1}(t)) - 1.$$

Second, by the integrated tail formula for expectations (Lo, 2019), and since G(x, y) is the cumulative distribution function of the real-valued random variable  $\tilde{v}(x, y)$ ,

$$\begin{aligned} v(x,y) &= E[\tilde{v}(x,y)] = -\int_{-\infty}^{0} G(x,y)(v)dv + \int_{0}^{+\infty} (1 - G(x,y)(v))dv = \\ &-\int_{0}^{+\infty} G(x,y)(-v)dv + \int_{0}^{+\infty} (1 - G(x,y)(v))dv = \\ &\int_{0}^{+\infty} (1 - G(x,y)(v) - G(x,y)(-v))dv \end{aligned}$$

For any v > 0, let t = r(v). By the remark above, the condition that  $F(y,x)(t) \leq (p(y,x)/p(x,y)) F(x,y)(t)$  can be rewritten as

 $G(x,y)(v) + G(x,y)(-v) \le 1$ 

for any v with t = r(v) > 0. This inequality then also holds for v = 0 by continuity. For any v with r(v) = 0, G(x, y)(v) = 1 and G(x, y)(-v) = 0, as otherwise the corresponding RCM-CF would generate an atom at response time zero. Hence G(x, y)(v) + G(x, y)(-v) = 1 in this case. It follows that the term in the final integral above is always positive, thus  $v(x, y) \ge 0$  and the conclusion follows.

If, additionally, the inequality  $F(y, x)(t) \leq (p(y, x)/p(x, y)) F(x, y)(t)$  is strict for some t, it must be strict for a nonempty interval by continuity, implying v(x, y) > 0.

# B Robustness Analysis: Time Pressure and Lottery Formats

In DSBC two *within-subject* treatments were implemented, time pressure vs. no time pressure and pie vs. bar lottery format. We can hence investigate the possible influence of these manipulations on our results.

Comparing revealed preferences over binary choices, there are no statistical differences between time pressure and its absence (56.13% vs. 57.16%; WRS N = 60, z = -0.942, p = 0.3505). However, we observe that using the bar representation is associated with a higher proportion of revealed preferences (59.87%) compared to the pie representation (53.84%; WRS N = 60, z = 3.872, p < 0.001).

Comparing overall proportions of RTVs, again there are no statistically significant differences between time pressure and its absence (19.03% vs. 19.15%; WRS N = 60, z = -0.129, p = 0.9011). A similar result is obtained when we consider WST violations (20.32% vs. 21.21%; WRS N = 60, z = -0.578, p = 0.5671). there are also no no significant differences in RTVs when comparing pie and bar representations (18.52% vs. 20.04%; WRS N = 60, z = -0.648, p = 0.5222). However, pie representations lead to a larger proportion of WST violations compared the bar representations, although the comparison misses significance at the 5% level (21.35% vs. 20.19%; WRS N = 60, z = 1.716, p = 0.0866).