

Report on Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Marija Alferovičová
Advisor:	PhDr. Václav Korbel
Title of the thesis:	Irrationality of consumer choice and the effect of nudging decision-making: A field experiment on tipping

The thesis is about soliciting tips in restaurants by means of business cards with various (altruistic and thank-you) messages. It contains an own experiment with cards with different messages being randomly distributed to restaurant guests. The experiment closely follows an experiment published in *International Journal of Hospitality Management* (Jacob et al., 2013). The thesis is thus a consumer research (foodservice marketing) study from the restaurant industry in the Czech Republic.

The main result is that providing a neutral as well as altruistic card has a negative effect on the size of the tip. Only a thank-you card has insignificant effect. In addition, small groups give more and also that waitresses receive more than waiters.

The experiment is cleanly conducted which has to be appreciated. The size of the sample (34-38) for each message type is just enough for the basic (OLS) regression.

I have the following comments:

- I would more appreciate a design with non-monetary devices that actually lift up extra tips and therefore are adopted by the providers; an analysis of equilibrium devices would be more valuable than an analysis of out-of-equilibrium devices.
- The results cannot be interpreted unambiguously because the experimental design did not permit to distinguish between competing explanations of why customers in this particular context treat cards negatively (customers are confused, or customers dislike being asked for a tip in that way).
- I do not see the results as „controversial“; the results simply indicate that ineffective devices have been used to solicit tips.
- The analysis does not shed light on how tips are used as bonuses for quality of the service (gratuity) in the restaurant industry. In other words, we do not understand well why restaurant providers do not increase price and at the same time guarantee service quality instead of leaving the service quality to the waiters and waitresses.
- The incentive effect of tips is in my opinion the most interesting economic question related to tipping; identifying the effect would require controlled variation in the quality of the service. It is also important to understand that restaurant themselves are setting a pay scheme for their employees and thereby they affect the supply side of tips. In my view, a comprehensive analysis of tipping is an analysis which involves restaurant managers, waiters and customers.
- There is no experiment in „personalization“ of the service or soft skills of the waiters and waitresses. Hence, the experiment does not help us to identify channels through which we could find why tipping is widespread in certain industries and almost non-existing in other industries (without running experiments in multiple industries).
- Rounding bills is a phenomenon documented by anecdotic evidence (a survey is quoted in which 80% of tips are rounded tips). The author correctly states that it explains why tip percentage decreases in the amount on the bill. Is it possible to isolate tips that included rounding and other tips? How about transforming the data to isolate away the rounding effect? (That is, we can calculate a net tip as the difference between tip and the upward rounded bill, where rounding can be, for example, to every 10 CZK or 20 CZK.)
- I would expect more attention paid to rounding the bill also because rounding improves efficiency by reducing the transaction cost of wearing small cash; hence rounding is an efficiency-improving social norm.
- When discussing the economic relevance and size of tipping in various industries, it might be interested to look upon „implicit tipping“ by not asking for a bill; these implicit tips should be included in the overall estimate of tipping.

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- I do not see value added in Chapters 1 and 2. There are many general statements that are not well founded. For example, „limited access to information“ (p. 16) cannot be violation of „rationality“ since it is an environmental property, not a behavioral property.
- The thesis is motivated by „irrationality“ but we cannot say a priori whether tipping is rational or irrational. For instance, the sentence „if consumers were rational, ..., they would not tip at all“ is clearly wrong not only for altruistic consumers but also for consumers who visit the restaurant repeatedly and therefore may play a repeated game with the staff where a tip incentivizes higher quality of the service.

I recommend grading the thesis as **good (B)**.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	15
<i>Methods</i> (max. 30 points)	20
<i>Contribution</i> (max. 30 points)	15
<i>Manuscript Form</i> (max. 20 points)	18
TOTAL POINTS (max. 100 points)	68
GRADE (1 – 2 – 3 – 4)	2

NAME OF THE REFEREE: *PhDr. Martin Gregor, PhD*

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Referee Signature

