

# What are some of the strengths and weaknesses of revealed preference methods used...

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## **What are some of the strengths and weaknesses of revealed preference methods used to determine market values for environmental goods and services**

This paper examines the use of revealed preference methods as a means of determining market values for environmental goods and services. Basically, environmental goods and services serve a purpose that is somewhat different and unique from other products of economic value and hence, there is the need for these products to be classified on their environmental, health and social worth which might not be important factors the market takes into account when defining the worth of products and services.

The revealed preference theory as a method of analysing choices made by individuals on the basis of comparing the influence of policies on consumer behaviour is meant to examine and reveal consumer purchasing habits on the basis of their market value. This theory examines the idea of diminishing marginal rate of substitution and identifies how consumers make decisions on the best ways of maximising utility. This involves the identification of the consumptive value of environmental attributes or goods.

Clearly, this is a problem of theoretical assumptions made by the economist who measures the data and sets the parameters for the study. This is because the theory is mainly conceptual and most consumers' minds and their views and sensitivity to issues cannot be measured in the same way other empirical materials might be measured. Thus, there is an issue with the design of the data collection systems and the underlining assumptions of the study and research.

Secondly, the data collection process is open to a lot of issues and difficulties when the revealed preference theory is applied to the environmental matters. This is because it is difficult to compile data of the consumption of environmental factors and this might require some kind of complex accounting system that might not be easily explicable to people who will take part in these studies.

Thirdly, this method cannot value attributes that vary across regions. Hence, there is a problem with the need and the possibility of examining and valuing products across different parts of Australia since the prices of one product solely found or demanded in one state might not have a comparative base for persons in other states.

Comparability remains a problem in the revealed preference method because consumers have different attributes across geographical regions. This might bring variations that might not be logical and realistic. Also, across timelines, there could be huge variations. For example, examining something in an area before a mining boom and another after the boom will show major variations that might render this approach futile and less effective.

Accuracy is also a major problem because the revealed preference method utilises various complex accounting methods and processes. And when additional valuation methodologies are added, there is the tendency that the aggregation and compilation of figures might be inaccurate and this might show misleading results. This is because such valuation methodologies might not include non-market components like the eco system, health, long term

variables amongst other things.

It is conclusive that a service valued by revealed preference theory might have various misleading issues relating to the valuation, formulation of the valuation model, data collection amongst others. This is because it is complex, and it removes the value and the worth of the product and tries to judge by what the market thinks. This is problematic. Rather, a more flexible approach utilising the perceived value by specialised groups of valuers might provide a more realistic set of estimates that can be done by experts without having to use the preference methods.