

Is Profit Evil? Associations of Profit with Social Harm

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WORKING DRAFT – PLEASE DO NOT QUOTE WITHOUT PERMISSION

Though firms can earn profit through either socially harmful or socially beneficial practices, five studies show that people view profit as necessarily socially harmful. Studies 1 and 2 find a strong negative correlation between profit and perceived social value across both real firms and entire industries. Study 3 shows that otherwise identically described organizations are seen as more harmful when they are labeled for-profit versus non-profit. Study 4 finds that people feel society would be better off without even good, short-term profits that reward socially beneficial innovations. Finally, Study 5 demonstrates that people see harmful business practices as profitable even when focused on long run consequences. Together, these results suggest that people neglect the positive incentive value of profit and tend not to acknowledge the possibility of “good” profit. Lay judgments are consistent with belief in a widespread market failure in which supply and demand do not determine prices.

Key words: heuristics, isolation effects, bracketing, economic psychology, profit, social welfare

1. Profit is Evil. And Profit is Good.

During the recent financial crisis, journalist Matt Taibbi (2009) notably described Goldman Sachs as “a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money.” Do people view firms’ pursuit of profit as inevitably coming at the expense of society? The portrayal of profit-seeking as intrinsically harmful has been a common theme in art and literature from Biblical times to the modern day (Ribstein 2009). Consistent with this notion, economists and business scholars have noted that profit often arises from harmful rent-seeking behaviors that are not socially productive (Krueger 1974). Profit may not reflect social value in market failures such as monopolies (Stiglitz 2002). Moreover, firms can extract market payments from a variety of behaviors

that restrict competition (e.g., litigation, lobbying, corruption, barring entry, piracy; Murphy, Shleifer and Vishny 1993). Indeed, the recent economic crisis has brought attention to instances in which profit-seeking is tied to harmful business practices like corruption, deception, and increases in systemic risk. Hence, profit can indicate social harm. Some profits are bad.

On the other hand, profit also arises from mutually beneficial transactions, and is associated with innovation, efficiency, and value (Krueger 1974). Though the public sector has also played a vital role (Nelson and Rosenberg 1993), profit-seeking firms are at least partially responsible for many dramatic advances in human welfare, such as the development and dissemination of antibiotic drugs by the pharmaceutical industry, Henry Ford's manufacturing innovations that made automobiles affordable and ubiquitous, and the laying of miles of fiber optic cable that ushered in the modern internet era (Friedman 2005; Levitt 1960). In market-oriented societies such as the United States, the opportunity to profit through commerce is a mechanism by which self-interest can create social value. Profits provide the incentive to innovate, improve existing offerings, move resources to more-valued industries, and produce more efficiently (Caplan 2007). Though social value is very difficult to define (Pava and Krausz 1996), and must include value created from firms simply "doing their job" (Drucker 1989), a growing body of empirical research assesses dimensions of social responsibility. Extensive empirical evidence, including a comprehensive meta-analysis, finds a consistently positive relationship between social responsibility and firm profit (Aguilera et al. 2007; Mackey, Mackey and Barney 2007; Orlitzky, Schmidt and Rynes 2003). Both economists and a variety of business scholars argue that profits arise as part of a win-win situation in which the pie becomes larger, leading to larger slices for both consumers and producers (Caplan 2007; Levitt 1960; Orlitzky et al. 2003). Hence, profit can also indicate social good. Some profits are good.

Thus, profits can be either good or bad, and that economists and scholars recognize and systematically study both sides. However, the lay view of profit may be one-sided. We propose that lay people often fail to appreciate good profit or consider the positive incentive value that profit provides. Specifically, we propose that the harms caused by profit are immediate, static, and easy to understand, while its benefits are long-term, dynamic, and difficult to grasp. As such, we argue that lay people view profit excessively negatively, taking it as almost necessarily indicative of social harm. Given recent financial crises and the resulting public discourse, it is perhaps as important as ever to understand differences between scholarly and lay perceptions of business profit and its impact on society¹.

¹To clarify what we mean by profit, it is important to distinguish between accounting profit and economic profit. We use "business profit" interchangeably with accounting profit, consistent with business and everyday usage. Accounting profit often provides little to no information about economic profit, which is used in theoretical contexts or in economic analysis (Fisher and McGowan 1983). First, correspondence between these measures depends on alignment between depreciation schedules and rates of return that

1.1. Two Worlds: A Thought Exercise

Imagine a world in which business profit is equivalent to social value (i.e., a correlation of 1.0 between profit and social value). What would this world look like? This would be a world with a perfectly functioning market: let us call it Market Heaven. In this ideal world, firms would compete for consumers and consumers would choose what is best for themselves. Firms that best provide what consumers want would be rewarded with the highest profits. This world would be characterized by widespread material plenty, growth, and well-being. Of course, these assumptions are not entirely realistic. Firms may inhibit competition (e.g., by lobbying to change the rules in their favor) and thus earn profit not by creating social value, but through economic rent-seeking. Consumers are not fully informed, farsighted, or always rational, and vast literatures in decision making, psychology, and behavioral economics have examined how people systematically deviate from these assumptions (e.g., Henrich et al. 2001; Kahneman, Slovic and Tversky 1982). Thus, we should never expect profit to perfectly reflect social value.

Now let us consider the opposite world, in which profits reflect only social harm (i.e., a correlation of -1.0 between profit and social value). This inverse relationship would represent Market Hell, or a perfect market failure. In this perverse world, firms would never face competition, instead acting as monopolists and making prices that consumers have to accept. Firms with greater profit would be those that set higher prices and provided less value in return, thus capturing the most money from other potential uses. Consumers would be at the mercy of firm practices and would lose money, forgo benefits, and incur harm based on firms' decisions. To the extent that consumers face any choice, they would be perfectly self-defeating and consistently make the worst possible decisions for themselves. Supply and demand would not determine prices. This world would be characterized by widespread poverty, stagnation, and misery.

In the real world, is every market really persistently failed and noncompetitive, with no role for supply and demand? And more generally, is our society better characterized by broad material plenty and a rising standard of living, or by widespread poverty and human misery? We suggest that if Market Heaven is based on somewhat unrealistic assumptions and does not exist, Market Hell is based on even more unrealistic assumptions, and is certainly not reflective of any developed economy.

While they differ in their views on the extent to which markets are effective, economists across the political spectrum tend to accept that profits reflect at least some social value (Caplan 2007; Gordon and

often diverge in practice and theory. Second, economic profits include opportunity costs, and are thus lower than accounting profits, which omit opportunity costs. And third, economic profits refer to asymptotic, long-run competitive equilibria that rarely reflect the real world. As an example, economic theory holds that in the long run, firms earn zero economic profit in a perfectly competitive market. Even in equilibrium, this translates to nonzero accounting profits when opportunity costs are omitted. Moreover, because real world markets are not currently in static equilibrium, we also observe ample variation in profits.

Dahl 2013). Consumers have some choices and more often than not choose things they like, so that supply and demand usually determine prices. Profits thus provide firms with the incentive to try to create value. Though both good and bad profits exist, economic first principles suggest that profit is not *inherently* bad (Caplan 2007). In fact, business scholars have argued that the empirical evidence for a universally positive association between social value and firm profit is so overwhelming that the matter is now closed (Aguilera et al. 2007; Orlitzky et al. 2003). Even scholars who have highlighted the shortcomings of our profit-driven economic system (e.g., Kasser et al. 2007) agree that it provides society with unprecedented value. In other words, there is widespread agreement among economists and most business scholars that the actual relationship between profit and value creation is positive, and the debate concerns only *how* positive it is. Yet, we suggest that people act much more as if we live in Market Hell than Market Heaven in their judgments of firms. Even in one of the most market-oriented cultures in human history—the United States—people often may not recognize the possibility of good profits.

1.2. Anti-Profit Beliefs

While prior research has examined the implications of the concept of money on social behavior (Dunn et al. 2008, Vohs et al. 2008), or on perceptions of price fairness in specific scenarios (Bolton et al. 2003, Campbell 2007, Kahneman, Knetsch and Thaler 1986), lay perceptions of business profit remain largely unstudied. In the spirit of recent research that examines lay beliefs concerning economic concepts and social welfare (Aaker et al. 2010, Norton and Ariely 2011), we propose and demonstrate that people hold *anti-profit beliefs*. The lay public readily views profit as arising from harmful practices, such as charging exorbitant prices, reducing quality, and exploiting labor. However, the public does not readily view profit as the reward for providing the goods and services that people most desire, or innovations in production or product development. In other words, we propose that people consider the negative incentives posed by profit, but do not consider the positive incentive value of profit. Thus, lay people appreciate bad profit, but not good profit, and see profit as nearly synonymous with social harm.

Why might people readily perceive the bad aspects of profit and not the good? One simple explanation is that the negative incentive value of profit is easier to grasp than the positive incentive value of profit. Consider the example of a fictional pharmaceutical firm named MegaPharm, which faces several negative incentives to capture value and earn bad profits. These harmful behaviors include setting excessively high prices, limiting supply, restricting competition, and reducing drug safety standards. MegaPharm also faces several positive incentives to create value and earn good profits. These beneficial behaviors include making costly investments in research to develop new drugs over time, developing those drugs that meet people's needs and improve societal welfare, maintaining high safety standards, and producing efficiently.

Note that the negative incentives posed by profit are immediate and easy to grasp: MegaPharm can earn more profit now by directly harming consumers. These incentives fit with a static view of profit, since for a given transaction, more profit to the firm yields less surplus to the consumer at that point in time. Hence, taken statically, a firm's level of profit may appear similar to excessive self-interest. In the personal realm, excessive self-interest is often harmful because it inhibits socially beneficial cooperation. Moral norms typically curb self-interest and prescribe more attention to others, promoting greater social good. If people rely on these well-established moral norms in the marketplace (Clark and Mills 1979; Fiske 1992), then the negative incentives for profit will appear salient and highly intuitive.

On the other hand, the social benefits of profit, and its positive incentive value, are best understood through dynamic considerations. MegaPharm's investments in research take time to provide financial returns, and the benefits of developing an assortment of safe, socially valuable drugs, relative to competitors, are realized in the long term. Without the possibility of profit, firms would lack the motivation to make costly investments in valuable products and technologies, ultimately shrinking the societal pie (Caplan 2007). Profits attract entry into the marketplace, encouraging competition to provide these products and technologies more efficiently, to the benefit of society. Thus, understanding these positive incentives requires a long-term view of business practices unfolding over time within a competitive market. These benefits are less intuitive. Indeed, it is only within the last 250 years that people have really begun to understand how self-interest can be harnessed for social good in this manner (Shermer 2008).

Hence, we propose that people focus on the intuitive, static, immediate negative incentives that result in bad profits while overlooking the unintuitive, dynamic, distant positive incentives that bring about good profits. Neglect of positive incentives is consistent with evidence that people routinely fail to consider such indirect effects, especially those displaced in time, across many contexts (McCaffery and Baron 2006). In general, in dynamic systems, people tend to focus on immediate feedback, and often fail to grasp delayed feedback and effects (Diehl and Sterman 1995). Even when these delayed effects are much larger in magnitude or much more important, immediate effects tend to command more attention (Baron, Bazerman and Shonk 2006). This general phenomenon has been referred to as isolation effects (Camerer 2000; Kahneman and Lovallo 1993) or narrow choice bracketing (Read, Loewenstein and Rabin 1999), and is also consistent with a variety of research on focusing errors (Idson et al. 2004; Jones et al. 1998). Ignoring relevant information and focusing on only certain inputs often leads to systematic errors in judgment (Idson et al. 2004). In this case, we argue that neglect of dynamic, long-run positive incentives leads people to regard profit as almost inherently harmful.

1.3. Predictions and Study Overview

If our account is correct, and people perceive negative incentives to profit while not considering positive incentives, then they will view profit as virtually equivalent to social harm. According to this view, profit is taken rather than created, just as people often erroneously view negotiations as having a winner and a loser even when they are win-win (Baron et al. 2006). Rather than focusing on why the societal pie has been created or how it tends to grow, they will focus on how it is sliced. Hence, anti-profit beliefs treat profit as *necessarily* leaving consumers and society with smaller slices.

In other words, if people do not consider the positive incentives to profit, as our theorizing predicts, then lay judgments should reflect a perfect market failure. Perceptions of profit should be negatively correlated with perceptions of social value. Moreover, profits should be seen as undeserved, coming at others' expense, and resulting from insufficient competition. In fact, this worldview treats firms as "monopolists of varying altruism" (Caplan 2007, p. 35) whose levels of profit reflect the selfishness of their motives (Bolton et al. 2003, Campbell 2007). Our predictions are consistent with work that demonstrates that lay people greatly overestimate the prevalence of market failures (Stiglitz 2002) and underestimate the long-term benefits of the market mechanism (Blendon et al. 1997; Caplan 2007).

Initial open-ended data from 103 MTurk subjects supports these predictions. Though comments were not solicited and were incidental to judgments of for-profit firms (see Study 3), many respondents freely offered perspectives commenting on the harm inherent in profit (e.g., "...I feel it's unfair because the corporation is making a huge profit."; "...any organization who wants to make more profit can't be supported."; "Profiting...to this extent is disgusting."; "...corporations hold a feeling of wanting pure profit with no regards of its customers whatsoever."). Such comments suggest that people may not naturally consider the positive incentives that profit provides.

Five studies systematically test these predictions. Study 1 demonstrates that the profit of Fortune 500 firms is strongly negatively correlated with perceived social value. This relationship holds whether profit is measured by respondents' perceptions or by actual net incomes from public data. Importantly, profits are seen as undeserved, coming at the expense of others, and resulting from a failed market. Study 2 demonstrates this effect for entire industries, and finds that profit is associated with both greater harmful business practices and fewer beneficial business practices. Study 3 provides causal evidence for the role of profit in judging value: even identically described practices of hypothetical organizations are viewed as less socially valuable when the organizations are described as for-profit rather than non-profit. Study 4 highlights the neglect of positive incentives: even in scenarios in which profit is good, and positive incentives are unambiguously clear, people favor reducing profits to minimal levels. Finally, Study 5 shows that even encouraging a long-term view has little effect on consideration of positive incentives: people rate long-term firm profitability as incentivizing harmful practices and disincentivizing beneficial practices. Even in one of the most market-oriented societies in human history, in which market norms are

well integrated into cultural life (Fiske 1992), people emphasize bad profit and overlook the possibility of good profit.

2. Study 1: Greater Firm Profit is Seen as Socially Harmful

Our first study was intended to explore whether people see profit as being related to social value. Accordingly, we sought to assess perceptions of profit for actual firms with which our respondents were familiar. We expected that firms perceived to be more profitable would be seen as less valuable to society. Moreover, consistent with our theorizing, we expected that profits would be seen as resulting from market failure.

2.1. Method

Eighty-five North American adults (34% male, mean age 45) who signed up to do studies for pay through a web panel completed the study for \$5. Subjects rated their perceptions of 40 firms sampled from the Fortune 500 list of highest-grossing public corporations (Fortune 2010). We randomly sampled 8 firms from each quintile of the list, subject to the constraints that the firms were recognizable to non-experts and profitable in the past year. Each firm was presented with a short description (e.g., “Kraft Foods Inc. manufactures and markets snacks, confectionery, and quick meal products worldwide.”).

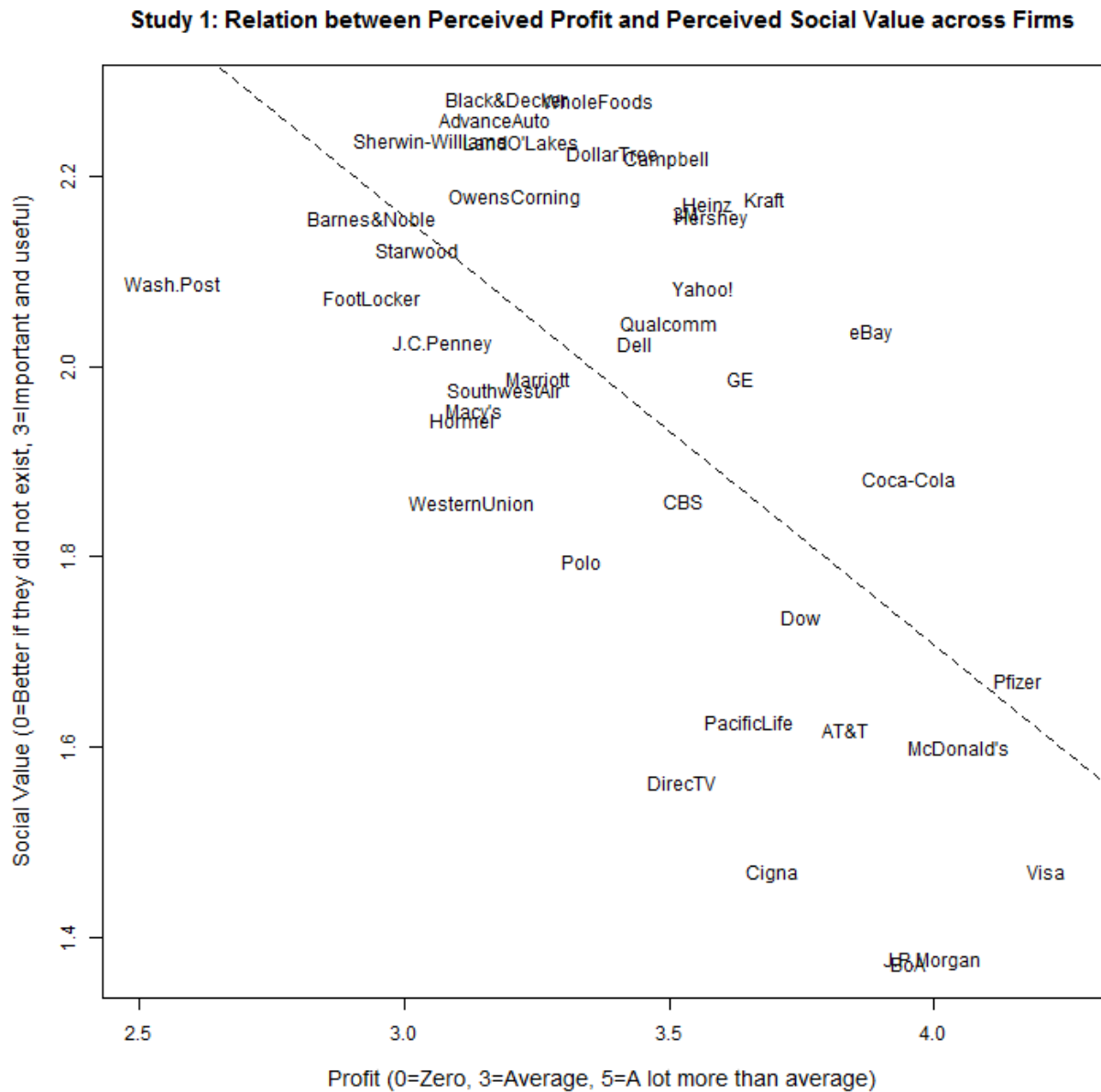
Subjects first indicated their familiarity with the firm on a 3-point scale (1 = Never heard of it, 3 = Familiar). Next, they rated the firm on perceived profit (“How much profit do you think this business made on the average (of businesses in general) in the last year?”; 0 = Zero or less, 5 = A lot more than average). Subjects then indicated whether they believed that this profit was deserved or not (“Is this amount of profit deserved or not?”; 1 = Less than what is deserved, 3 = More than what is deserved) and the perceived value of the firm to society (“What do you think about the value of this business to society, on the whole?”; 0 = It would be better if it did not exist, 3 = It is important and useful). Finally, subjects provided their beliefs about the sources of firm profits (“Do profits for [this business] (if any) come at the expense of others?” and “Do these profits (if any) result from lack of sufficient competition?”; yes/no) and the motives of those that run the firm (“What are the most important motives of those who run this business?”; 1 = To serve society or consumers, 3 = To make money, regardless of the effect on others). Order of presentation of firms was randomized within each subject.

2.2. Results

2.2.1. Anti-Profit Beliefs. We omitted responses to firms for which the subject expressed no familiarity ($n = 319$, or 9%, of 3400 total subject-firm responses were omitted). As expected, mean

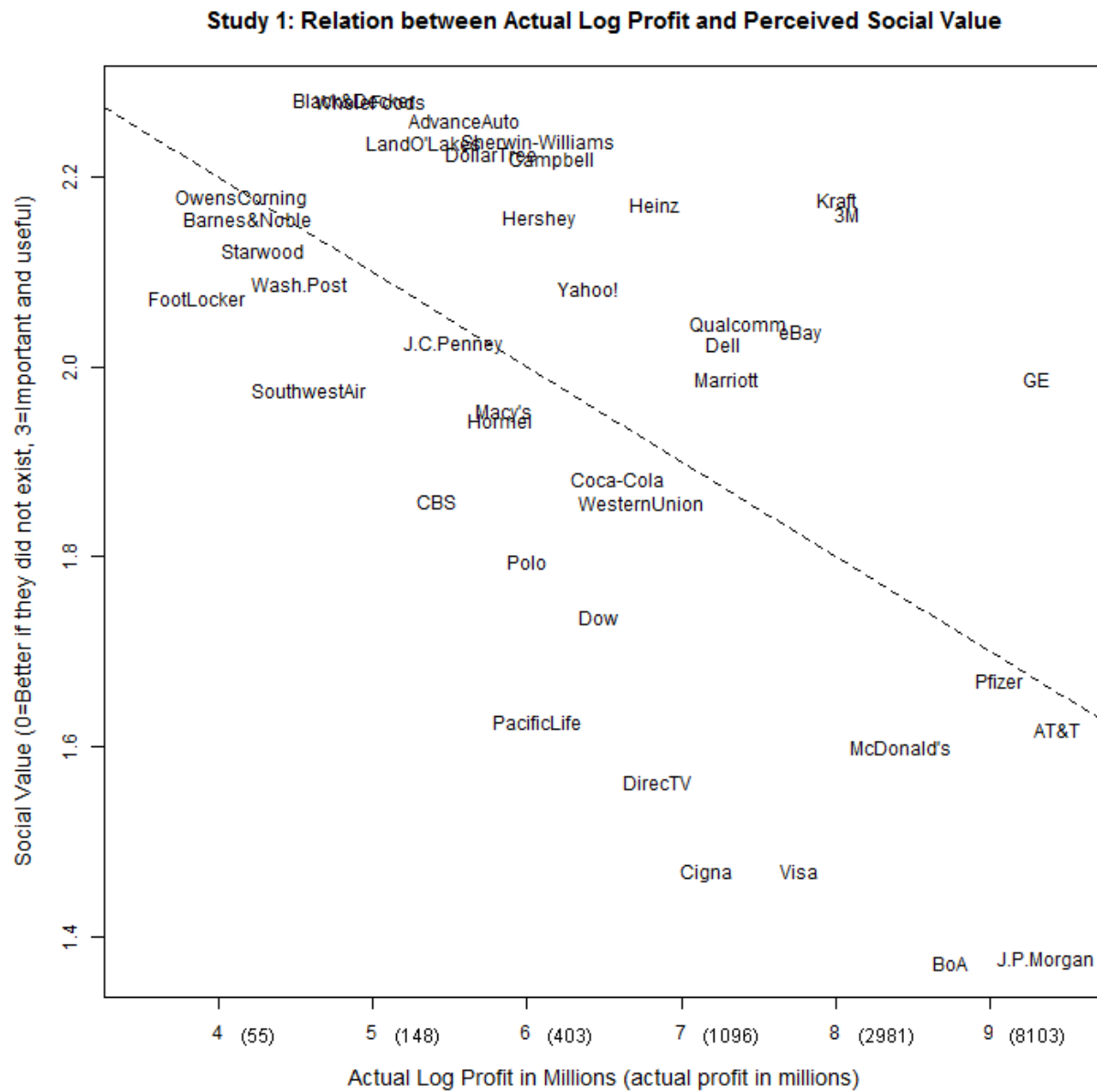
ratings for profit and social value were highly negatively correlated across firms ($r(38) = -.62, p < .0001$; see Figure 1A). Substituting the log of actual profit for perceived profit yielded a similarly strong correlation ($r(38) = -.57, p < .0001$; see Figure 1B)². Given that ratings of perceived profit and social value have some measurement error, these results suggest that, in the aggregate, profit is virtually a proxy for social harm.

Figure 1A: Relation between Perceived Profit and Perceived Social Value across Firms



² Perceived profit was strongly correlated with the log of actual profit ($r(38) = .78, p < .0001$), suggesting that subjects' judgments of relative firm profitability were accurate.

Figure 1B: Relation between Actual Log Profit and Perceived Social Value across Firms



Note: Figure 1A displays mean ratings of social value and perceived profit for individual firms in Study 1. Figure 1B displays mean ratings of social value and actual log profit for individual firms in Study 1. Figure 1B x-axis labels denote log profit in millions, with actual profit in millions in parentheses. The dashed line in each figure is the least squares linear fit.

2.2.2. Bad Profit Measures. It is possible that these perceptions are not necessarily rooted in perceptions of market failure. Moreover, subjects' interpretations of social value may differ from our

conception and thus may not reflect our predictions. To assess this possibility, we examined the aggregate correlations between perceived profit and items reflecting various bad reasons for profit that do not reflect value creation. As expected, more profitable firms were rated as more undeserving of their profits ($r(38) = .75, p < .0001$), profiting more at the expense of others ($r(38) = .76, p < .0001$), more lacking in competition ($r(38) = .55, p < .001$), and more motivated to make profit regardless of the effect on others ($r(38) = .61, p < .0001$). Again, these effects remained strong and robust in individual-level linear mixed-effects models (see Table 1). These results are consistent with the idea that people see profit as largely being taken rather than created.

2.2.3. Distinguishing Between Good and Bad Profit. These results provide strong initial evidence consistent with our theorized account. The presence of strong associations with actual profit suggests that these effects were not driven merely by inaccurate judgments of profit. But are participant ratings simply accurate? Given that both good profits and bad profits exist, perhaps participants correctly perceive that the greater profitability of some firms actually reflects their success in manipulating markets and not their value creation. One possible way to proxy for the amount of successful rent-seeking in which a firm has engaged is to look at its profit margin. Profits and rates of return vary quite widely from industry to industry (Fisher and McGowan 1983), making it difficult to objectively assess how profitable good business practices should be for a given firm. But firms that have successfully manipulated markets, for example by influencing regulators or lobbying politicians, may tend to have higher profit margins (i.e., net profit divided by total revenue) because their profits are not being checked by competition in the market. Thus, a systematic relationship between profit margin and perceived social value might reflect accurate perceptions of bad profit.

Accordingly, using public data on revenue and profit, we calculated each firm's profit margin as a proxy for bad profit. Indeed, we did observe a significant negative correlation between actual profit margin and perceived social value ($r(38) = -.34, p = .032$), suggesting that subjects have some accurate perceptions of variation in bad profit. Thus, as one crude way to distinguish actual bad profit from actual good profit, we reran our analyses, controlling for profit margin. The partial correlation of perceived profit with perceived social value remained strong ($r(37) = -.56, p < .001$) controlling for profit margin. As before, results also held for actual log profit and perceived social value ($r(37) = -.49, p < .001$) controlling for profit margin. Moreover, in two linear mixed-effects models predicting perceived social value and including profit margin as a covariate, the effects of both perceived profit ($b = -.056, t = 3.57, p = .001$) and actual profit ($b = -.091, t = 3.21, p = .002$) remained highly significant, while the respective effects of profit margin were significant ($b = -1.43, t = 2.47, p = .013$) and not significant ($b = -0.443, t = 0.69, p = .474$). Importantly, our mechanism measures indicating perceptions of bad profit and market failure also remained significant in both aggregate partial correlations and individual-level mixed-effects

models (see Table 1). Although profit margin is a somewhat crude measure of bad profit, our results are at least consistent with the suggestion that subjects' association of profit with social harm cannot be explained by the presence of bad profit, and that subjects do not appreciate good profit.

Table 1: Aggregate and Individual-Level Relations of Perceived Profit with Value and Bad Profit

Measure	Aggregate Correlation	Partial Correlation	Individual-Level Regression	Regression with Control
<i>Social value</i>	-.62***	-.56***	-0.058***	-0.056***
<i>Not deserved</i>	.75***	.65***	0.183***	0.181***
<i>Others' expense</i>	.76***	.69***	0.114***	0.113***
<i>No competition</i>	.55***	.30*	0.033***	0.032***
<i>Profit motive</i>	.61***	.51***	0.094***	0.091***

Note: * $p < .05$, ** $p < .01$, *** $p < .001$. Aggregate bivariate and partial correlations use average ratings of perceived profit and measures for each firm. Individual-level regression results are coefficients from linear mixed-effects models with crossed random effects that regress perceived profit on each measure, with p-values generated via MCMC simulation. Partial correlations and regressions with control include profit margin as a covariate.

2.3. Discussion

As expected, our findings demonstrated a strong negative association between perceived profit and perceived social value. Results held for actual profit, suggesting that this pattern cannot be explained solely by inaccurate judgments of profit. Moreover, our results remained robust even when attempting to account for bad profit using actual profit margin as a rough proxy. This analysis suggests that subjects see even good profit as socially harmful. Importantly, our mechanism measures provide further evidence of our account: subjects exhibited a zero-sum view of profit, indicating that they neglected the long-term positive incentive value of profit and focused on the immediate negative incentives. However, we found some heterogeneity: while many more subjects exhibited the expected negative association, over a tenth of our subjects actually held pro-profit beliefs. One explanation for some of the heterogeneity in anti-profit belief could be subjects' particular experiences with familiar, prominent firms. We conducted Study 2 to assess this possibility and address several features of our measurement strategy in Study 1.

3. Study 2: Greater Industry Profit is Seen as Harmful and Not Beneficial

To look beyond particular firms with whom people may have had variable personal experiences, Study 2 tested types of firms (i.e., industries). If the overall negative association between perceived profit and perceived social value depends on certain firms, then we would expect this correlation to be much weaker in judgments of entire industries. Conversely, if profit is used as a proxy for social harm, as we predict, then we should still observe a strong negative relationship between perceived profit and perceived social value with less individual heterogeneity. Consistent with Study 1, we expected that even entire industries perceived to be more profitable would be seen as less valuable to society.

Study 2 also sought to complement the measurement strategy used in Study 1, and thus had a number of additional objectives: 1) To directly measure beliefs about harmful business practices, beneficial business practices, and broader externalities. While subjects' responses to the mechanism measures in Study 1 clearly reflected a zero-sum view of profit, subjects did not have the opportunity to directly express their beliefs about good profit. Including these measures allows for more nuanced responses, as well as responses at a more specific, molecular level. 2) To ensure that the effects in Study 1 were not an artifact of question order. For example, judging profitability first may have influenced ratings of social value. As such, the order of the profit and social value measures, as well as the order of the business practice measures, were counterbalanced. 3) To test whether anti-profit beliefs can be explained by economic knowledge or by political ideology. We included these potential moderators at the end.

3.1. Method

Ninety-two North American adults (31% male, mean age 46) who signed up through a web panel completed the study for \$7. Subjects rated 40 industries, each of which was listed with typical examples (e.g., "Investment banks (such as Morgan Stanley, Citigroup)"; "Metal producers (such as US Steel, Alcoa)").

As in Study 1, subjects first indicated their familiarity with each industry. They then rated each industry on perceived profit and the perceived value of the industry to society, with the order of these items counterbalanced across subjects: half the subjects rated profit first, while half the subjects rated social value first. The profit and social value measures were identical to those used in Study 1, except with industries replacing individual firms.

Next, subjects rated each industry on perceptions of specific harmful business practices ("This type of business overcharges consumers."; "This type of business underpays employees."; "This type of business takes safety shortcuts."; "This type of business exploits loopholes in regulations."), specific beneficial practices ("This type of business provides valuable goods and services."; "This type of business

contributes important innovations to society.”), and broader negative and positive externalities (“This type of business makes our culture worse.”; “This type of business makes cultural contributions to society.”). All eight measures had the same response options (Agree, Disagree, Not Sure). As before, order of presentation of industries was randomized within each subject. The order of the eight industry behavior measures was also counterbalanced across subjects.

After the industry ratings, subjects completed several measures to allow us to assess individual differences. First, subjects answered nine questions designed to test their economic understanding of profit (with response options: True, False, Not Sure). Five measures were adapted from Klein and Buturovic’s (2011) economic enlightenment scale (e.g., “All other things being equal, mandatory licensing of professional services increases the prices of those services.” (True); “Rent-control laws make housing more available.” (False)), while the remaining four measures were created to apply to profit more specifically (e.g., “If a company makes a profit selling some product and another company does not, the profitable company must be giving the consumer a worse deal.” (False); “If musicians cannot make money from selling recordings, fewer musicians will make recordings at all.” (True)). Finally, subjects reported their overall political orientation (“Which description best represents your political ideology?” Progressive/Very Liberal, Liberal, Moderate, Conservative, Very Conservative, Libertarian, Not Sure, Refuse to Answer). “Libertarian” responses were recoded as equivalent to “Very Conservative” and “Not Sure” was recoded as equivalent to “Moderate,” leaving us with a 5-point scale with “Moderate” in the middle. “Refuse to Answer” responses were omitted.

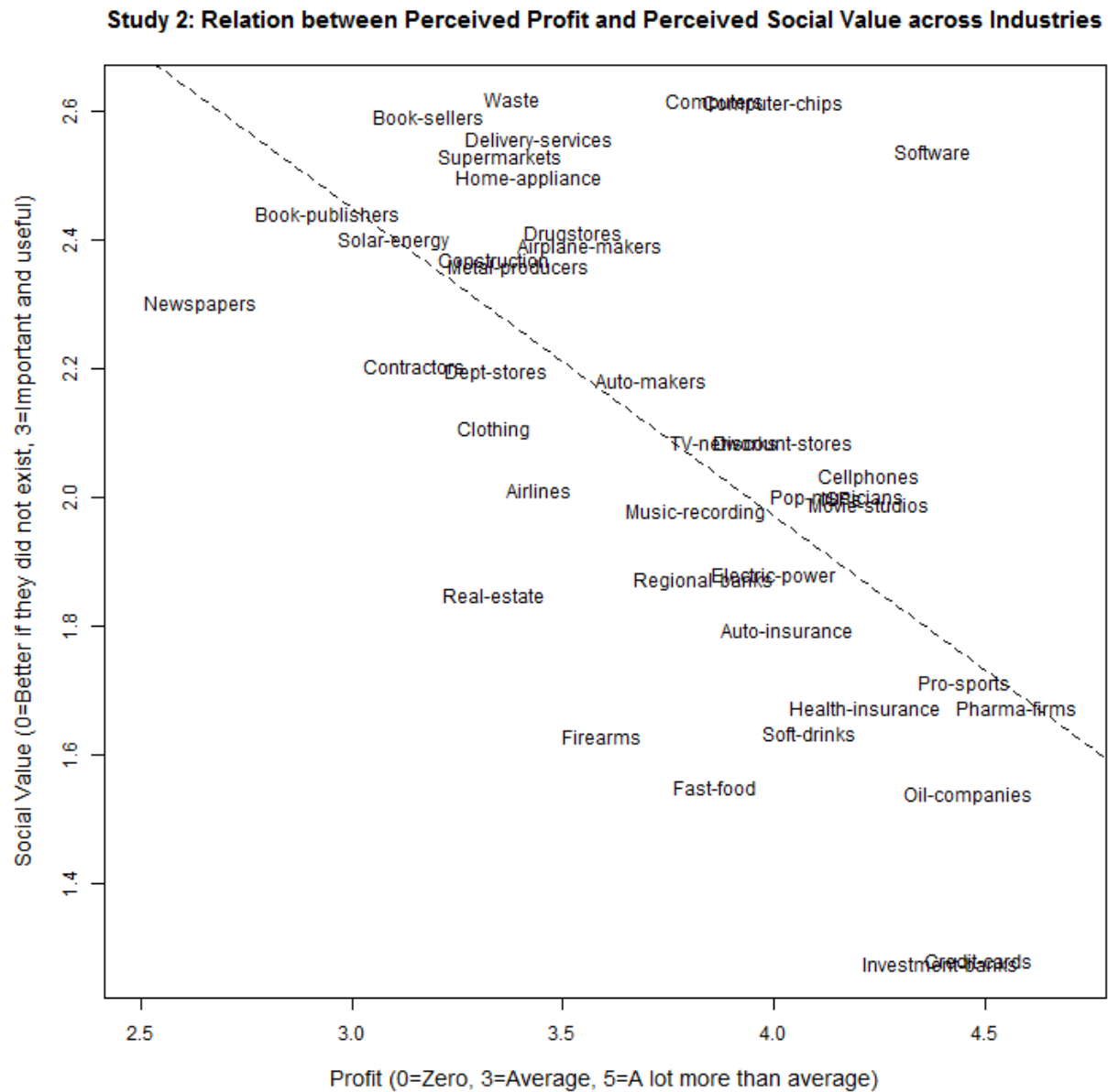
3.2. Results

3.2.1. Anti-Profit Beliefs. We omitted responses to industries for which the participant expressed no familiarity ($n = 112$, or 3%, of 3680 total subject-industry responses were omitted). As in Study 1, mean profit and social value were highly negatively correlated ($r(38) = -.60, p < .0001$; see Figure 2).

To ensure robustness and examine individual-level anti-profit perceptions, we again used linear mixed-effects models with crossed random effects for subjects and industries. Higher ratings of profit were again associated with lower ratings of social value, even with random slopes for profit for each subject ($b = -0.114, t = 5.91, p < .0001$). As in Study 1, we also calculated within-subject correlations between perceived profit and perceived social value. Overall, 49% ($n = 45$ of 92) of subjects exhibited a significant negative correlation ($p < .05$, uncorrected), indicating anti-profit beliefs. Only 8% ($n = 7$) of subjects showed a significant positive correlation, not significantly greater than would be expected by

chance ($n = 4.6$). Thus, when judging entire industries, the tendency to exhibit anti-profit beliefs is even more pronounced.³ Question order had no effect on individual anti-profit beliefs.

Figure 2: Relation between Perceived Profit and Perceived Social Value across Industries



Note: Mean ratings of social value and perceived profit for entire industries in Study 2. The dashed line is the least squares linear fit.

³ A replication including a broader set of industries found an even greater proportion of subjects reporting significant anti-profit beliefs (73%, $n = 59$ of 81). Again, the proportion of subjects reporting significant pro-profit beliefs (2%, $n = 2$ of 81) was no greater than chance.

3.2.2. Bad Profit (Harmful Business Practices). To assess our proposed mechanism more concretely, we examined the mean correlations between perceived profit and perceptions of specific harmful business practices. More profitable industries were rated as overcharging consumers more ($r(38) = .69, p < .001$), taking more safety shortcuts ($r(38) = .35, p = .029$), and exploiting more loopholes in regulations ($r(38) = .63, p < .001$). Perceived industry profit was negatively but not significantly related to perceptions of underpaying workers ($r(38) = -.17, p = .289$). All significant results held and grew stronger in individual-level analyses using linear mixed-effects models with crossed random effects (see Table 2). These results suggest that, even across industries, subjects view profits as associated with more specific harmful business practices.

3.2.2. Good Profit (Beneficial Business Practices). To examine whether people can recognize positive as well as negative aspects of profit, we looked at the mean correlations between perceived profit and perceptions of specific beneficial business practices. More profitable industries were rated as providing fewer valuable goods and services ($r(38) = -.39, p = .013$), though there was no significant relation of profitability with perceptions of contributing important innovations ($r(38) = -.12, p = .468$). As before, results held using linear mixed-effects models (see Table 2). In addition to associating profits with more harmful practices, subjects also saw profits as tied to fewer beneficial business practices.

3.2.3. Broader Social Impact (Externalities). Next, to see if anti-profit judgments extend to broader societal effects, we examined the mean correlations of perceived profit with perceived negative and positive externalities. Larger profits were positively related with making our culture worse ($r(38) = .67, p < .001$) and negatively but not significantly related with perceptions of making cultural contributions ($r(38) = -.20, p = .217$). Both effects were significant in individual-level analyses using linear mixed-effects models (see Table 2). Consistent with our findings for specific business practices, subjects viewed profits as related to more broad harmful effects and fewer beneficial effects on society.

3.2.4. Economic Knowledge and Political Ideology. Finally, we examined the effects of two potential moderators to explain anti-profit beliefs. First, we sought to assess whether greater economic knowledge would attenuate anti-profit beliefs. The economic knowledge measure had low internal consistency ($\alpha = .47$) and was weakly positively correlated with anti-profit beliefs (i.e., individual subjects' correlations of profit and social value; $r(90) = .13, p = .23$), contrary to expectations. No individual items were significantly related to anti-profit beliefs. Thus, these results provide no evidence that anti-profit beliefs can be explained by economic ignorance.

Next, we tested whether political ideology could explain anti-profit beliefs, with conservative ideology related to more pro-profit beliefs. Political ideology was also poorly correlated with individual anti-profit beliefs (i.e., individual subjects' correlations of profit and social value; $r(90) = -.13, p = .23$),

but in the expected direction: self-described conservatives had weaker anti-profit beliefs than self-described liberals, though this difference was not significant. Moreover, when we regressed anti-profit beliefs on political ideology, the intercept remained significant for very conservative subjects ($b = 0.15$, $t = 2.21$, $p = .029$), and significant anti-profit beliefs emerged when considering all self-described conservative subjects separately ($b = 0.14$, $t(26) = 2.34$, $p = .027$). Thus, variation in anti-profit beliefs cannot be explained by political ideology alone, and anti-profit beliefs appear robust across the political spectrum.

Table 2: Aggregate and Individual-Level Relations of Perceived Profit with Industry Practices

Industry Practice	Type	Aggregate Correlation	Individual-Level Regression
<i>Overcharging</i>	<i>Harmful</i>	.69***	0.200***
<i>Underpaying employees</i>	<i>Harmful</i>	-.17	-0.021
<i>Taking safety shortcuts</i>	<i>Harmful</i>	.35*	0.088***
<i>Exploiting regulatory loopholes</i>	<i>Harmful</i>	.63***	0.155***
<i>Providing valuable goods</i>	<i>Beneficial</i>	-.39*	-0.024*
<i>Providing important innovations</i>	<i>Beneficial</i>	-.12	-0.027
<i>Making culture worse</i>	<i>Externality (Neg.)</i>	.67***	0.142***
<i>Making cultural contributions</i>	<i>Externality (Pos.)</i>	-.20	-0.036*

Note: * $p < .05$, ** $p < .01$, *** $p < .001$. Aggregate correlations use average ratings of perceived profit and practices for each industry. Individual-level regression results are coefficients from linear mixed-effects models with crossed random effects that regress perceived profit on each measure, with p-values generated via MCMC simulation.

3.3. Discussion

Our findings indicate a strong and robust negative association between perceived profit and perceived social value. Results suggest that subjects perceived strong negative incentive effects of profit, but not positive incentives for profit: perceived profit was positively correlated with harmful business practices and negatively correlated with beneficial business practices. This is direct support for the notion that subjects attend to bad profit but overlook the possibility of good profit. These measures provide more

explicit evidence convergent with Study 1, in which subjects' zero-sum view of profit implicitly ignored good profit in favor of bad profit.

Our effects cannot be explained by measurement artifacts such as question order or imprecise (or systematically different) definitions of social value. Finally, variation in anti-profit beliefs cannot be fully explained by political ideology or economic knowledge. The latter finding is perhaps particularly surprising. One possibility is that the range of economic knowledge was restricted, since our sample included only lay people (i.e., economic knowledge might be highly predictive of anti-profit beliefs if our sample also included economic experts). Our next study sought to increase experimental control by manipulating the profit motive.

4. Study 3: Profit Motive Increases Perceived Harm of Same Practices

Studies 1 and 2 provide consistent correlational evidence of a strong negative relationship between perceptions of profit and social value, and support the notion that people overlook good profit and focus on bad profit. Since these studies dealt with real firms and industries, perceptions of business practices, as well as perceptions of profit, were endogenous to subjects when they entered the study. For instance, one possibility is that subjects simply rated disliked companies as more profitable. While the actual profit results in Study 1 cast doubt on this explanation, Study 3 was intended to provide a cleaner test of our theorizing. In particular, we sought to establish the causal relationship of profit by exogenizing it and manipulating it experimentally. Subjects' responses thus far indicate perceptions of widespread market failure, wherein greater profit motive is strongly associated with more harmful practices and less beneficial practices. Hence, we manipulated the presence of a profit motive to see if it would change judgments of even the same business practices. We provided subjects with identical descriptions of hypothetical organizations and their practices, varying only whether they were described as for-profit or non-profit. Finally, in addition to asking about social value, we also included a bipolar measure of social harm and social good, and a measure of effectiveness, to provide convergent evidence.

4.1. Method

One hundred adults were recruited through Amazon mTurk, a population known to be approximately 48% male with a mean age of 32 (Ross et al. 2010), to participate in exchange for financial payment, but 103 ended up completing the survey. Subjects read a series of hypothetical scenarios describing the practices of organizations across five different industries (see Appendix A for full scenarios). Industries including both for-profit firms and non-profit organizations were chosen to ensure that our manipulation

was plausible and externally valid. The scenarios described: 1) an organization that requests volunteer donations of blood plasma and sells it to hospitals; 2) an organization that buys quality handmade jewelry and crafts from poor artisans in developing nations and sells them at high margins in retail outlets in developed nations; 3) an organization that buys the rights to promising new medical technologies from the inventors, then develops and sells the technologies to hospitals; 4) an organization that provides microloans to people in developing nations at high interest rates; and 5) an organization that sells Fair Trade coffee at higher prices so that small coffee farmers are paid more.

The key manipulation varied only whether the organization was described as a “for-profit corporation” or a “non-profit organization.” In a between/within design, each subject viewed both versions of all five scenarios, randomly receiving either the entire for-profit block or non-profit block first. The order of presentation of the scenarios within blocks was randomized. After reading each scenario, subjects rated the organization on perceived social harm or good (“On the whole, how much social harm or good is accomplished by [the organization]?”; 1 = Much harm, 3 = No good or harm, 5 = Much good), perceived value to society (“How much value for society does [the organization] create?”; 1 = None, 4 = A great deal), and effectiveness (“How effective is [the organization] in achieving its goals?”; 1 = Not effective, 3 = Very effective).

4.2. Results

We first analyzed within-subjects responses. Combining across scenarios, a repeated measures ANOVA revealed that subjects viewed the same organization as less socially good (i.e., more socially harmful) when it was described as for-profit ($M = 3.32$) versus non-profit ($M = 3.46$; $F(1, 101) = 7.67, p = .007$). Similarly, the same organization was rated as creating less value for society when it was described as for-profit ($M = 2.59$) versus non-profit ($M = 2.70$; $F(1, 101) = 8.79, p = .004$).

We replicated these effects in between-subjects analyses using only responses to the first presentation of each scenario. Again, averaging across scenarios, the organization was seen as less socially good ($M = 3.27$ vs. 3.53 ; $F(1, 101) = 4.52, p = .036$) and less valuable to society ($M = 2.53$ vs. 2.76 ; $F(1, 101) = 4.68, p = .033$) when it was described as a for-profit corporation. In both between- and within-subjects analyses, the direction of the effects was consistent in every scenario.

Averaging across scenarios, the organization did not differ significantly on perceived effectiveness in within-subjects ($M = 2.28$ vs. 2.23 ; $F(1, 101) = 2.83, p = .096$) or between-subjects analyses ($M = 2.32$ vs. 2.19 ; $F(1, 101) = 2.53, p = .115$), though the for-profit description was directionally favored. These findings suggest that the results for social value and harm were not driven by perceptions that for-profit corporations are worse at fulfilling organizational objectives. Moreover, using effectiveness as a covariate to test robustness revealed slight suppression effects. Controlling for perceived effectiveness, the effect of

profit motive on perceived social good grew stronger in both within-subjects ($M = 3.31$ vs. 3.49 ; $F(1, 1019) = 11.39, p = .001$) and between-subjects analyses ($M = 3.21$ vs. 3.57 ; $F(1, 100) = 11.49, p = .001$). Similarly, controlling for perceived effectiveness, the effect of profit motive on perceived value to society strengthened in both within-subjects ($M = 2.59$ vs. 2.73 ; $F(1, 1019) = 9.29, p = .002$) and between-subjects analyses ($M = 2.48$ vs. 2.79 ; $F(1, 100) = 10.52, p = .002$).

4.3. Discussion

As expected, profit-seeking per se was perceived to lead to less social value and greater social harm. Notably, these effects were consistent and robust across a set of abstract scenarios with hypothetical organizations, a conservative test of our theorizing. Since business practices were held objectively constant, our findings provide more definitive evidence that judgments of social value and harm are not driven only by accurate perceptions of bad profit (i.e., harmful practices). Indeed, perceived effectiveness did not vary significantly, suggesting that our subjects did not believe that for-profit corporations are poorly suited to operate in these industries. Instead, our findings point to two related explanations. One possibility is that profit was seen as intrinsically harmful: even without differences in organizational practices or effectiveness, the mere presence of profit may have been viewed as more harmful than its absence. Another possibility is that profit-seeking was seen as intrinsically motivating harm more than good: though perceived effectiveness in achieving organizational objectives did not vary, the objectives themselves may have been seen as more harmful. While both explanations are consistent with our account, our two final studies tested our theorizing more directly.

5. Study 4: Even Good Profit is Seen as Unnecessary

Study 3 demonstrates that the perceived negative incentives posed by profit influence evaluations of the same business practices. Study 4 was designed to specifically test whether subjects appreciate the positive incentive value of profit. We presented two controlled scenarios in which profits were unambiguously good (i.e., due to high quality, innovation, efficiency, and mutually beneficial exchange) and limited to the short term by competition in the market. Importantly, we explicitly ruled out bad sources of profit (e.g., piracy, corruption, creating barriers to competition) as potential attributions for profit. Accordingly, it was clear that profit had resulted from the creation of social value. We tested whether subjects would appreciate the positive incentive value of profit in such situations. Under these circumstances, reducing or eliminating profit would reduce the incentive for firms to create value, leaving society worse off in the long run. We asked these questions in two sets. Importantly, we phrased our questions to apply to firms in

general in these types of situations, and asked subjects about long-term profit to draw their attention to dynamic considerations of the benefits of profit. We again tested the potential influence of political beliefs, this time asking specifically about economic issues.

5.1. Method

One hundred North American adults (67% male, with mean age 31) were recruited through Amazon MTurk in exchange for financial payment. Subjects read one of two hypothetical business scenarios: a Medical scenario and a Mobile scenario (see Appendix B for full scenarios). Each presented an instance in which business profit provided the incentive for beneficial business practices.

The Medical scenario described a medical billing services company that helped transition medical practices to electronic record keeping, leading to reduced costs and better patient outcomes. While the company could charge a standard markup over its costs and be profitable, it finds that medical practices are willing to pay over twice this amount and sets its prices at this higher level. The company knows that within a year, competitors will be able to imitate its software and enter the market, driving down prices and reducing its profit to normal levels. In the meantime, the company is extremely profitable.

The Mobile scenario described a mobile computing device company that serves both individual consumers and the military, and has improved its manufacturing process by reducing the use of precious metals. With its reduced costs, the company could charge much less than its competitors, but it continues to sell at prices almost as high as its competitors. The company knows that over time, competitors will figure out how to make similar changes to their own manufacturing processes, driving down prices and reducing its profit to normal levels. In the meantime, the company is extremely profitable.

After reading one of the scenarios, subjects rated the acceptability of company profits (“How acceptable is the amount of profit made by this company as a result of maintaining its prices?”; 1 = Completely unacceptable, 4 = Completely acceptable), the deservingness of company profits (“How much does this company deserve the extra amount of profit it makes from maintaining its prices?”; 1 = Completely undeserving, 4 = Completely deserving), and perceived value to society (“How much value for society has this company created as a result of its innovations?”; 1 = None, 4 = A great deal).

Most importantly, in two sets of questions, we then assessed subjects’ beliefs about the positive incentive value of profit in such situations. In the first set, subjects read an addition to the scenario:

“Now imagine a world in which consumers know that companies like this can lower their prices right away rather than waiting a year. Unless they do so, consumers will refuse to buy their products. Such price cuts would reduce firm profits and pass savings on to consumers right away. In this world, companies in situations like this would expect to make normal profits instead of extremely high profits.

Answer the following questions with this world in mind, compared to a world with high profits.”

Subjects answered two general questions about the effects of restricting companies to normal profits in these situations (“In the long run, would consumers be better or worse off if companies in situations like this lowered their prices right away and thus made normal profits?”; “In the long run, would society be better or worse off...?”). Three specific questions then asked about particular product innovations that should be affected by the incentive provide by profits (“In the long run, would consumers be better or worse off in terms of new product availability if companies in situations like this made limited profits?”; “...better or worse off in terms of the development of desirable product features...?”; “...better or worse off in terms of product quality...?”). All five items used the same response scale (1 = Much worse off, 2 = Somewhat worse off, 3 = No different, 4 = Somewhat better off, 5 = Much better off). Next, subjects indicated which world they would choose to live in (“Would you rather live in a world in which firms like this can make extremely high profits in the first year while competitors catch up, or a world in which firms like this make normal profits and pass on savings to consumers?”; 1 = World with high profits, 2 = Not sure, 3 = World with normal profits).

After completing these questions, subjects continued to the second set of questions. Before answering these questions, subjects reviewed the original scenario and then considered another addition:

“Now suppose that the national government passes a law limiting profits for this kind of industry. Because the products in question are in the national interest, the law limits profits to normal levels. As a result, the savings that result from innovations must be passed on to all consumers, including the government itself, immediately.”

The first five questions from the previous part of the study were repeated and minimally rephrased to refer to the policy (e.g., “In the long run, would consumers be better off or worse off if policies made companies in situations like this lower their prices right away and thus make limited profits?”).

Finally, we measured political beliefs about economic issues to test for their potential influence on responses (“Which description best represents your political ideology on economic issues?” 1 = Very liberal, 2 = Liberal, 3 = Somewhat liberal, 4 = Moderate, 5 = Somewhat conservative, 6 = Conservative, 7 = Very conservative).

5.2. Results

5.2.1. Recognizing Good Profit. Averaging across the two scenarios, we first tested whether subjects viewed the high profits described in the scenario as acceptable and deserved. Ratings of acceptability ($M = 3.21$; $t(99) = 8.41$, $p < .001$) and deservingness ($M = 3.21$; $t(99) = 8.29$, $p < .001$) were significantly greater than the scale midpoint (2.5). Similarly, subjects rated each company significantly above the scale midpoint on the value it had created for society through its innovation ($M = 2.95$; $t(99) = 5.05$, $p < .001$). For ease of interpretability, we then recoded to combine unfavorable responses (responses

of 1-2) and favorable responses (3-4), and tested against a null hypothesis of even cell counts, or half the subjects describing profits as good. In binomial tests, a sizable majority of subjects rated profits as at least somewhat acceptable (83%, $p < .001$), deserved (82%, $p < .001$), and resulting from the creation of a fair amount or great deal of social value (68%, $p < .001$). Hence, our scenarios were successful in describing profits that reflected value creation and that participants found acceptable.

5.2.2. Recognizing Incentive Value: World without High Profit. Next, we assessed whether subjects recognized the incentive value that profits provided in these scenarios. We first tested whether subjects thought that consumers and society would be significantly better off or worse off in a world in which companies like this are restricted to normal profits, relative to the scale midpoint (3) denoting no difference. Subjects reported that in the long term, consumers ($M = 3.91$; $t(99) = 8.87$, $p < .001$) and society ($M = 3.77$; $t(99) = 7.45$, $p < .001$) would be significantly better off if such companies could make only normal profits. Results were consistent when asking specifically about effects on innovation. Subjects reported that consumers would be significantly better off in terms of new product availability ($M = 3.51$; $t(99) = 4.50$, $p < .001$), the development of desirable product features ($M = 3.22$; $t(99) = 1.99$, $p = .049$), and product quality ($M = 3.29$; $t(99) = 3.14$, $p = .002$) if firms could not make high profits. Averaging all five measures into a composite scale ($\alpha = .84$), the pattern is quite clear: on all counts, subjects believed that a world that limits such firms to normal profits would lead to significantly better outcomes ($M = 3.54$; $t(99) = 6.61$, $p < .001$).

We also recoded to combine responses indicating that consumers or society would be at least somewhat worse off (responses of 1-2) and responses indicating no change or improvement (3-5), and tested against a relatively conservative null hypothesis of equal cell counts, which would suggest that half the subjects appreciate the incentive value of these profits and perceive drawbacks to reducing them. In binomial tests, only a small minority of responses indicated that consumers (12%, $p < .001$) or society (14%, $p < .001$) would be at least somewhat worse off in the long term if firms like this could not make high profits. Similarly, relatively few subjects reported that reducing profit would adversely affect the availability of new products (22%, $p < .001$), the development of desirable product features (34%, $p = .001$), or product quality (18%, $p < .001$). Totaling responses across all five measures, only a minority of subjects perceived potential drawbacks to a world in which firms in situations like this could not expect to make high profits (20%, $p < .001$). No responses varied significantly by scenario. See Table 3 for subject responses, broken down by question set, measure, and scenario.

On our final measure, in which subjects were given a choice of worlds to live in, subjects exhibited a distinct preference for a world in which firms like these could expect to make only normal profits, rather than high short-term profits ($M = 2.28$; $t(99) = 3.48$, $p = .001$; compared to scale midpoint of 2). While 28% of subjects were unsure and 22% of subjects chose a world in which firms could make high profits,

50% of subjects preferred to live in a world in which firms that had created value through innovation could expect to make no additional profits ($\chi^2(1) = 13.04, p = .001$).

Table 3: Beliefs about Long-Term Effects of Limiting High Profits on Outcomes

Profit Limit	Outcome Measures	Scenario	Response Totals			
			Worse Off (1-2)	No Different (3)	Better Off (4-5)	Mean (1-5 scale)
<i>World</i>	<i>Consumers</i>	<i>Medical</i>	5***	4	43	4.02***
		<i>Mobile</i>	7***	11	30	3.79***
<i>World</i>	<i>Society</i>	<i>Medical</i>	6***	7	52	3.87***
		<i>Mobile</i>	8***	12	28	3.67***
<i>World</i>	<i>New products</i>	<i>Medical</i>	10***	12	30	3.62***
		<i>Mobile</i>	12***	13	23	3.40*
<i>World</i>	<i>Desirable features</i>	<i>Medical</i>	16**	11	25	3.27
		<i>Mobile</i>	18	11	19	3.17
<i>World</i>	<i>Product quality</i>	<i>Medical</i>	8***	24	20	3.35**
		<i>Mobile</i>	10***	22	16	3.23
<i>Regulation</i>	<i>Consumers</i>	<i>Medical</i>	12***	4	36	3.69***
		<i>Mobile</i>	15*	6	27	3.46*
<i>Regulation</i>	<i>Society</i>	<i>Medical</i>	11***	8	33	3.62***
		<i>Mobile</i>	18	8	22	3.23
<i>Regulation</i>	<i>New products</i>	<i>Medical</i>	15**	12	25	3.31
		<i>Mobile</i>	19	8	21	3.15
<i>Regulation</i>	<i>Desirable features</i>	<i>Medical</i>	17*	14	21	3.17
		<i>Mobile</i>	21	9	18	3.00
<i>Regulation</i>	<i>Product quality</i>	<i>Medical</i>	15**	20	17	3.08
		<i>Mobile</i>	16*	13	19	3.10

Note: * $p < .05$, ** $p < .01$, *** $p < .001$. Response totals are numbers of subject responses in each category. Significance levels in “Worse Off” column denote results of binomial tests on the proportion of “worse off” responses versus the sum of “no different” or “better off” responses. Significance levels in “Mean” column denote results of one-sample t-tests comparing mean response values to the scale midpoint (3).

5.2.3. Recognizing Incentive Value: Regulating Profit. We repeated these analyses on items from the second set of questions, assessing whether subjects perceived drawbacks to limiting firms like this to normal profits through government regulations. Relative to the scale midpoint (3), subjects reported that, in the long run, consumers ($M = 3.58$; $t(99) = 4.87$, $p < .001$) and society ($M = 3.43$; $t(99) = 3.69$, $p < .001$) would be significantly better off if regulations restricted such companies to only normal profits. However, these effects attenuated when asking directly about innovation. Subjects' responses did not differ significantly from the scale midpoint when reporting perceived effects on new product availability ($M = 1.87$; $t(99) = 3.23$, $p = .064$), the development of desirable product features ($M = 3.09$; $t(99) < 1$, $p = .464$), and product quality ($M = 3.09$; $t(99) < 1$, $p = .416$) if firms could not make high profits. Nevertheless, when all five measures were averaged into a composite scale ($\alpha = .93$), responses were significantly greater than the scale midpoint, indicating a belief that regulations limiting such firms to normal profits would lead to significantly better outcomes ($M = 3.28$; $t(99) = 2.73$, $p = .007$).

As before, we recoded to combine responses indicating that consumers or society would be at least somewhat worse off (responses of 1-2) and responses indicating no change or improvement (3-5). In binomial tests, only a minority of responses indicated that consumers (27%, $p < .001$) or society (29%, $p < .001$) would be at least somewhat worse off if firms like this could not make high profits. Similarly, relatively few subjects reported that regulating to limit profit would worsen the availability of new products (34%, $p = .002$), the development of desirable product features (38%, $p = .021$), or product quality (31%, $p < .001$). Totaling across all five measures, only a minority of subjects perceived potential drawbacks to regulations that restricted firms in situations like this from making high profits (32%, $p < .001$). Responses did not vary significantly by scenario (see Table 3 for responses by scenario).

5.2.4. Political Ideology. Finally, we assessed the relationship between subjects' beliefs about the effects of limiting profits and subjects' political orientation on economic issues. On items about a world with limited profits, only one of the five measures was significantly correlated with political orientation. Nevertheless, the composite measure of these items was significantly correlated with political beliefs ($r(100) = -.20$, $p = .041$), such that economic conservatism was negatively associated with responses that society would be better off without high profits. On items about regulations limiting profits, four of the five measures correlated significantly with political orientation, as did the composite measure of these items, with economic conservatism again negatively associated with responses indicating better outcomes without high profits ($r(100) = -.26$, $p = .010$). Though comparing these composite indices using a repeated-measures ANOVA shows that subjects were more favorable towards limiting profits when asked about another world ($M = 3.57$) than when asked about regulation ($M = 3.28$, $F(1, 98) = 9.35$, $p = .003$), the association with political beliefs appears similarly strong across both sets of questions.

To better understand the generality of subjects' understanding of incentive effects, we categorized them by economic political ideology as either liberal (self-reported political ideology rating of 1-3), moderate (rating of 4), or conservative (rating of 5-7). Averaging across scenarios and the two sets of questions, both liberals ($M = 3.55$; $t(48) = 4.82$, $p < .001$) and moderates ($M = 3.58$; $t(23) = 3.96$, $p < .001$) consistently agreed that consumers and society would be significantly better off if these sorts of profits were limited to normal levels, with relatively few liberal (21%, $p < .001$) and moderate (15%, $p < .001$) responses indicating perceived drawbacks to doing so. Even among only conservative subjects, average ratings indicated that consumers and society would be no different if such profits were limited ($M = 3.01$; $t(26) < 1$, $p = .933$), and significantly fewer than half of total responses reported problems with limiting profit (43%, $p = .033$). Hence, despite the relation with political beliefs, we observed no instances in which a significant majority of subjects indicated that limiting good profits to normal levels would leave consumers and society worse off in the long run. Across the political spectrum, and even at the conservative end, most subjects do not recognize the incentive value of profit in relatively straightforward hypothetical scenarios.

5.3. Discussion

While economists stress that the incentive value of profit induces firms to innovate in situations like these (Caplan 2007), our respondents behaved as if these innovations (which they rated as very beneficial) would occur without any hope of increased profit. Even in situations in which subjects recognize that profit reflects social value, most do not recognize its role in incentivizing the creation of that value. Though these additional profits beyond normal levels were seen as acceptable, deserved, and reflective of social value, most subjects indicated that curtailing these sorts of profits to normal levels would be better for consumers and society in the long run. Under these circumstances, the widespread desire to reduce or eliminate profit indicates a view of profit as inherently undesirable, and reducing profit as inherently desirable. Moreover, responses were consistent even when directly assessing effects on product innovation. These findings suggest that most subjects' responses indicate an inability to grasp or consider the incentive value of profit in producing social good, rather than a willingness to knowingly forgo economic benefits for the sake of upholding moral beliefs against profit.

In contrast to our findings in Study 2, subjects' responses did vary significantly with political beliefs. One reason for this divergence might be that we specifically assessed economic political orientation. Another possibility is that our hypothetical questions were easier to interpret in a political light, relative to questions about real world industries. Given that "regulation" is a politically loaded term, it is not surprising that responses to this set of questions were more moderate (i.e., closer to the null of no difference) and slightly more strongly related to political beliefs than responses about a world with

limited profits. Nevertheless, it is important to note that even conservative subjects did not exhibit a preference for high profits. Lay neglect of positive incentives thus appears relatively robust and consistent across the political spectrum, though the role of politics warrants further inquiry. Accordingly, Study 5 returned to asking subjects about actual firms to further assess subjects' understanding of long-term incentive effects and to more carefully measure and test the role of political orientation.

6. Study 5: Harmful Business Practices are Seen as Profitable in Long Run

Study 4 suggests that even asking about the long-term effects of business practices within a competitive market does not lead subjects to consider the positive incentive value of profit. Our final study sought to further examine such long-term considerations in the context of actual firms to better distinguish between two potential explanations. One possibility is that drawing people's attention to long-term dynamic considerations within a competitive market will help them appreciate the positive incentive properties of profit and attenuate anti-profit beliefs. For example, while harmful practices such as taking safety shortcuts could be immediately profitable in the short run, they could reduce profit in the long run as consumers move to more trusted firms. A second possibility is that even in a long-term competitive context, people believe that harmful business practices are profitable and beneficial business practices are unprofitable, reflecting neglect of the positive incentive value of profit. We assess these possibilities for each of several specific harmful and beneficial practices. We also included a political ideology measure that was more specific and complete than the ones used in Study 2 and Study 4.

6.1. Method

Eighty-five North American adults (28% male, with mean age 45) who signed up through a web panel completed the study for \$5. We selected 18 firms from the set of Fortune 500 firms used in Study 1 that were similar on perceived profit but varied in perceived social value. Each firm was presented with a short description (e.g., "Kraft Foods Inc. manufactures and markets snacks, confectionery, and quick meal products worldwide."). As in Study 1, subjects indicated their familiarity with each firm, their perceptions of its profitability in the last year, whether this profit was deserved, and its perceived value to society. Finally, subjects indicated whether profits came at others' expense, and their beliefs about the motives of those running each firm. Presentation order was randomized within each subject.

After completing these initial questions, subjects viewed descriptions of the same firms they had seen earlier in the same order, and answered the same questions about amount of profit, deservingness, value to society, whether profits came at the expense of others, and the motives of the firm's leaders. In order to

further assess our proposed mechanism, we conducted an additional within-subjects manipulation. For a random half (either the first nine or second nine firms) of the firms, we included additional questions to examine subjects' beliefs about the long-term effects of specific firm practices. The objective was to test whether reminding subjects of long-term dynamic considerations in a competitive market would lead them to appreciate the positive incentive value of profit and thereby attenuate anti-profit beliefs.

Specifically, we directed subjects' attention towards long term implications of these firm behaviors to both act as a treatment and assess their beliefs. We asked about the effect of four harmful business practices ("Charging more for the goods or services it sells."; "Producing lower quality goods or services so as to save money."; "Paying workers less."; "Taking safety shortcuts.") and two beneficial business practices ("Producing a good product or service that people are willing to buy."; "Reducing costs through new ideas, while maintaining quality.") on long-term firm profitability (1 = Reduce profit, 2 = No effect, 3 = Increase profit). After this intervention, subjects again completed the initial measures of perceived profit, deservingness, value to society, whether profits came at the expense of others, and the motives of the firm's leaders.

After all of these measures were completed, we assessed political ideology. Three items asked specifically about the role of government in free enterprise on a series of five-point scales (e.g., "Free markets are better than government at providing what people need." 1 = Never true, 5 = Always true). A final item measured overall political orientation ("How would you classify your political views?" 1 = Very liberal, 2 = Liberal, 3 = Moderate, 4 = Conservative, 5 = Very conservative).

6.2. Results

6.2.1. Anti-Profit Beliefs. We omitted responses to firms for which the subject expressed no familiarity ($n = 45$, or 3%, of 1530 total subject-firm responses were omitted). Though the number of firms was small, strong aggregate effects still emerged. As before, mean profit and social value were highly negatively correlated ($r(16) = -.67, p = .002$). Mean correlations between perceived profit and our initial mechanism items also supported our earlier findings. Again, as expected, more profitable firms were rated as more undeserving of their profits ($r(16) = .86, p < .0001$), profiting more at the expense of others ($r(16) = .75, p < .001$), and exhibiting greater profit motivation ($r(16) = .74, p < .001$). These aggregate results confirmed our findings from Studies 1 and 2.⁴

6.2.2. Long-term Effects of Harmful Firm Practices. Next, we assessed beliefs about the long-term effects of harmful firm practices (all of which were asked separately for each firm). Aggregating

⁴ Although most subjects (54%, $n = 46$ of 85) reported significant anti-profit beliefs, a few subjects (13%, $n = 11$) exhibited pro-profit beliefs, significantly greater than what would be expected by chance ($n = 4.25, p = .003$, one-sided binomial test).

across all ratings, charging more than competitors was thought to increase profits in the long term by most subjects ($M = 2.45$; 18% of responses = reduce profit, 19% = no effect, 62% = increase profit). Similarly, paying labor less than competitors was thought to increase long-term profits ($M = 2.53$; 11% = reduce profit, 26% = no effect, 64% = increase profit). Though results were less conclusive for the perceived effects of producing low quality goods ($M = 1.94$; 42% of responses = reduce profit, 22% = no effect, 36% = increase profit) and taking safety shortcuts ($M = 2.11$; 28% of responses = reduce profit, 34% = no effect, 38% = increase profit), it is notable that a majority of subjects believed that these practices would increase profit or else have no effect in the long term.

Correlations of perceived profit with subjects' judgments about firm-specific long-term effects lent further support to our theorizing. In the aggregate, greater perceived firm profit was associated with the belief that charging higher prices is profitable in the long term ($r(16) = .60, p = .008$) and the belief that producing lower quality goods or services is profitable in the long term ($r(16) = .56, p = .016$). Beliefs about the long-term profitability of underpaying labor ($r(16) = .24, p = .342$) and taking safety shortcuts ($r(16) = .32, p = .201$) were also positively but not significantly associated with perceived firm profits. While statistical power was low for these aggregate analyses, all of these effects were significant in individual-level analyses using mixed-effects models (see Table 4). Most importantly, in both aggregate and individual-level analyses, the direction of all the effects was consistent with the idea that harmful business practices are profitable in the long term.

Table 4: Aggregate and Individual-Level Relations of Long-Term Profit with Firm Practices

Profitability of Firm Practices	Type	Aggregate Correlation	Individual-Level Regression
<i>Charging More</i>	<i>Harmful</i>	.60**	0.155***
<i>Producing Low Quality</i>	<i>Harmful</i>	.56*	0.121***
<i>Paying Labor Less</i>	<i>Harmful</i>	.24	0.049*
<i>Taking Safety Shortcuts</i>	<i>Harmful</i>	.32	0.084**
<i>Producing Good Quality</i>	<i>Beneficial</i>	-.31	-0.074***
<i>Low Cost Innovation</i>	<i>Beneficial</i>	-.03	-0.032*

Note: * $p < .05$, ** $p < .01$, *** $p < .001$. Aggregate correlations use average ratings of perceived profit and profitability of practices and for each firm. Individual-level regression results are coefficients from linear mixed-effects models with crossed random effects that regress perceived profit on each measure, with p-values generated via MCMC simulation.

6.2.3. Long-term Effects of Beneficial Firm Practices. We conducted the same analyses for beliefs about the long-term profitability of beneficial firm practices. Interestingly, producing high quality goods and services ($M = 2.81$; 1% of responses = reduce profit, 16% = no effect, 82% = increase profit) and reducing costs through innovation ($M = 2.80$; 2% of responses = reduce profit, 16% = no effect, 82% = increase profit) were both seen as increasing firm profit in the long term. When asked directly, subjects did indicate that these beneficial practices contributed to long-term profitability.

However, these beliefs were not reflected in aggregate correlations between perceived profit and subjects' judgments of firm-specific long-term profitability. Beliefs about the long-term profitability of producing high quality goods ($r(16) = -.31, p = .213$) and reducing costs through innovation ($r(16) = -.03, p = .892$) were negatively but not significantly correlated with perceived firm profits. These effects were both significant in individual-level analyses with mixed-effects linear models (see Table 4). Again, the direction of both the aggregate and individual-level analyses reflect the notion that beneficial business practices are not seen as profitable in the long term.

6.2.4. Long-term Thinking Intervention. Next, we sought to assess the effects of our intervention. In asking subjects about the long-term implications of firm actions, we necessarily reminded them of dynamic considerations within a competitive context. To assess whether this treatment was effective in attenuating anti-profit beliefs, we employed linear mixed-effects models (see Table 5). Higher ratings of profit significantly predicted lower ratings of social value ($b = -.103, p = .0001$), while the intervention ($b = -.062, p = .531$) and the interaction of profit x intervention ($b = .010, p = .726$) had no effect. Thus, reminding subjects of the long-term implications of firm actions did not attenuate the negative relation between perceived profit and social value.

Table 5: Individual-Level Results of Long-Term Thinking Intervention on Bad Profit Beliefs

Dependent Measure	Perceived Profit	Intervention	Profit x Intervention
<i>Social value</i>	-0.103***	-0.062	0.010
<i>Not deserved</i>	0.204***	-0.023	0.001
<i>Others' expense</i>	0.095***	0.017	0.009
<i>Profit motive</i>	0.095***	0.049	0.014

Note: * $p < .05$, ** $p < .01$, *** $p < .001$. Individual-level regression results are coefficients from linear mixed-effects models with crossed random effects, with p-values generated via MCMC simulation.

6.2.5. Political Ideology. This single-item measure of political ideology was poorly correlated with anti-profit beliefs (i.e., individual subjects' correlations of profit and social value; $r(78) = .11, p = .342$), and beliefs about the long-term effects of firm actions (combined in an index: $\alpha = .60$; $r(83) = .00, p = .997$). An index combining all four ideology items ($\alpha = .71$) was also poorly correlated with anti-profit beliefs ($r(78) = .16, p = .169$) and beliefs about the long-term effects of firm practices ($r(83) = -.06, p = .568$). Results were identical when anti-profit belief measures and long-term-effect measures were regressed on all four separate ideology measures, as the overall R-squared was non-significant in each case. Self-described liberals held directionally, but not significantly, stronger anti-profit beliefs than conservatives. Despite the abstract scenario responses we observed in Study 4, these findings, together with those of Study 2, suggest that in judgments of actual firms and industries, variation in anti-profit beliefs cannot be explained by political ideology alone.

6.3. Discussion

Our findings lend further support to the notion that people overlook positive incentives for profit and emphasize negative incentives. As in Study 4, subjects' responses suggest that they do report the possibility of socially valuable profit when directly asked. However, again consistent with Study 4, this recognition was not reflected in judgments associating outcomes with firm profit. More profitable firms were perceived to gain profits from socially harmful practices but lose profits from socially beneficial practices in the long term. At the individual level, all six measures of long-term effects reflected the notion that profits incentivize harm and disincentivize good. These findings provide more conclusive evidence that people readily perceive immediate negative incentives but overlook distant positive incentives, even when asked about the long term. As such, calling subjects' attention to long term considerations had no effect on anti-profit beliefs, since they were fully concordant with these beliefs. Finally, consistent with the findings of Study 2, differences in political ideology could not explain variation in anti-profit beliefs. In short, anti-profit beliefs appear robust.

7. General Discussion

People apparently have little faith in the power of markets to create and reward value for society. Across actual firms (Studies 1 and 5), entire industries (Study 2), and hypothetical organizations (Studies 3 and 4), our subjects associated greater levels of profit, and profit-seeking itself, with social harm and less social value. Though firms themselves were not seen as generally evil or devoid of value, profit *was* viewed as evil. Subjects overlooked the possibility of good profit and largely treated profit as necessarily

bad. Consistent with an appreciation of negative incentives and a neglect of positive incentives to profit, responses indicated perceptions of persistent market failure. Indeed, our subjects seemed to exhibit the “ineradicable prejudice that every action intended to serve the profit interest must be anti-social by this fact alone” (Schumpeter 1954, p. 234). These results are quite in opposition to the view of profit espoused by economists and scholars: though markets are not perfect, in the real world, supply and demand usually rewards those profit-seekers that provide what society wants. In this respect, people’s judgments about profit do not align with basic economic principles. Even in one of the most market-oriented societies in human history, people do not seem to believe in the possibility of the invisible hand.

Could it be that our subjects are simply correct in their beliefs, even if their view of profit tends to be uniformly negative? Perhaps scholars and laypeople simply differ in how they view profit, with neither view being incorrect. We note that while economists and business scholars are not in perfect agreement about the overall extent to which profit reflects positive social value, the scientific arguments are over *how much* it reflects social value, not *whether* it does (Caplan 2007; Orlitzky et al. 2003). This scientific position has emerged through systematic observation and rigorous analysis, while the views of laypeople arise through anecdote and intuition. To use an analogy, climate scientists disagree about how much, but not whether, human behavior impacts climate. Naïve theories that deny human impact on climate fall far outside the scope of climate science. Similarly, naïve theories that deny any positive value of profit fall far outside the scope of economic science and business scholarship, and should be of no higher standing than climate change denial. Because economic issues are morally inflected and harm from profit is intuitively appealing, the similarities among these two systematic disparities between lay beliefs and scientific evidence may be easy to overlook.

7.1. Theoretical Implications

Our findings are in the spirit of research that examines lay intuitions about systematic, simple relations between sets of constructs that may not be related in a simple way. In particular, Alhakami and Slovic’s (1994) seminal work finds that the perceived risks and perceived benefits of a wide variety of activities and technologies are consistently viewed as inversely related, despite being treated independently in scholarly risk analysis. For instance, disliked items such as pesticides are perceived as having both high risks and minimal benefits, while liked items such as alcohol are seen as both highly beneficial and low-risk. Similarly, Ganzach (2000) demonstrates that judgments of risk and judgments of return of financial assets are perceived as inversely related. In both cases, these effects are driven by global affect or liking for the target. While this mechanism seems like a reasonable alternative account for our demonstrated association between perceived profit and perceived social harm, it cannot fully explain our findings. First, our analyses using actual profit in Study 1 suggest that these associations are not

arbitrary. Subjects' perceptions of profit are quite accurate, and their judgments are likely to be based on more than just affect. Second, and most convincingly, the results of Study 4 show that subjects think we would be better off without even unambiguously good profits that they evaluate favorably. This divergence between liking and understanding the role of profit suggests that these mechanisms are distinct. Taken together, the most parsimonious explanation of our full set of findings is the overemphasis of direct, immediate negative incentives and the neglect of indirect, distant positive incentives of profit.

Nevertheless, our account does accord well with several helpful theoretical perspectives. Our findings broadly support the notion that people's reasoning often proceeds from simplified mental models (Baron et al. 2006; Legrenzi, Girotto and Johnson-Laird 1993; McCaffery and Baron 2006). People may employ a single model that incorporates only information that is immediately and readily at hand, and may thus neglect to consider other relevant information. Given limited information, limited cognitive resources, and limitations posed by existing cultural habits and perspectives, the prevalence of such focusing and bracketing effects is unsurprising (Read et al. 1999). In the context of anti-profit beliefs, we note that dynamic considerations about allocation of resources, product innovation and improvement, and firm entry and exit unfold over long periods of time and are difficult to observe at any given point. As such, grasping how these complex factors contribute to social value may be difficult for lay people. When faced with questions for which answers are difficult to generate, people may substitute a related question for which intuitive answers are readily available and answer that instead (Kahneman 2011; Kahneman and Frederick 2002). Given that people do not naturally consider the essential role of profit in incentivizing social value creation, considerations of good and bad profit reduce to very simple, static zero-sum assessments at a fixed point in time. In other words, difficult questions about dynamic considerations in properly understanding both profit and social value (e.g., "How have MegaPharm's business practices over time contributed to its level of profitability today, relative to its competitors?") are replaced with simple, static questions (e.g., "Would I be better off today if Megapharm charged me less and made less profit?"). This account of simplifying heuristics—mental substitution of an easier question—may be an elegant way to capture how our effects occur at a phenomenological level, and may help explain how lay intuitions favoring dubious positions are nonetheless held with a high degree of certainty (Caplan 2012).

7.2. Implications and Future Directions

Our results have several implications that touch on multiple business disciplines. We contribute to the notion that consumer judgments of firms are driven by beliefs drawn from social contexts. For instance, firm judgments are subject to interpersonal stereotypes along dimensions of warmth and competence (Aaker et al. 2010), and inferences about firm motives may govern a range of such judgments (Campbell 2007). Our findings suggest that one contributing factor to the primacy of motives in such judgments may

be broad perceptions of market failure. Firm motives should play a larger role under these circumstances, since firms would be unrestrained by competitive forces and free to act as they choose. People may greatly overestimate the discretion that firms have in many decisions, and thus overemphasize the importance of inferred firm motives (Bolton et al. 2003; Caplan 2007).

Understanding what drives such inferences may also shed light on larger questions, such as what makes some firms (even those that are high-profit) more “bulletproof” in terms of consumer perceptions. For instance, in the retail sector, Wal-Mart is often vilified by the same consumers for whom the firm has created ample value (Furman 2005). Meanwhile, Target seems to enjoy greater consumer perceptions of social value, though some business commentators have specifically argued that its practices are less sustainable than those of Wal-Mart (Schwartz 2010). Understanding the social beliefs that shape firm judgments is critical for appropriate brand management and firm communications.

While we employed broad measures of social value and social harm, another broad question concerns the dimensions of value that consumers can recognize and reward. In other words, what might explain the residuals of the best fit lines in Figures 1 and 2? Interestingly, many of the types of businesses seen as relatively lacking in social value provide goods and services used on an everyday basis (e.g., credit cards, petroleum products, health and automobile insurance, cell phones). Because these goods and services are almost indispensable in today’s world, the firms that provide them may arguably have the *most* social value. One possibility is that consumers have adapted to the social value of these goods and services because of their very prevalence. Looking above the regression line prompts a related question: what allows some types of businesses to be perceived as both highly profitable and socially valuable? Technology firms seem to cluster in this quadrant, and it is possible that the value of these goods is more tangible to people, or even that people recognize the incentive value of profit in fostering certain types of innovation. These are important and fundamental directions for future research to explore. Moreover, managers will benefit from knowing what dimensions and firm attributes to highlight in firm communications to minimize public perceptions of profit-driven social harm.

Deeper investigation of judgments of profit is another potential direction. While we focused on firms with positive profits in Studies 1 and 5, people may also see negative profits as indicative of social harm. Though our findings suggest that profit is seen as inherently bad, further such research may offer insight into judgments about the appropriate or normative level of profit for a given firm. Moreover, if profit and social value are seen as fundamentally in conflict, then socially responsible enterprise may be especially prone to being tainted by the contaminating influence of profit (Pallotta 2008). Similarly, recent work demonstrates that firms in communally focused domains, such as religion and health care, may provoke negative consumer reactions when they employ tactics commonly used by profit-seeking firms (McGraw

et al. 2012). Thus, a broader potential direction is to identify the boundary conditions on seeing market forces as intrinsically corrupting. Such issues have implications for both firm and individual decisions.

From a policy perspective, if anti-profit beliefs are indeed biased and rooted in a misunderstanding of markets, they are an important target for economic education, as a misinformed public may choose systematically poor economic policies for itself (Blendon et al. 1997; Caplan 2002, Stiglitz 1998). Understanding the critical role of prices, wages, and profits as market signals that direct the efficient allocation of resources may be difficult, but such knowledge may allow people to better act in accordance with their actual (i.e., enlightened) policy preferences (Althaus 2003, Caplan 2002).

Perhaps most importantly, lay beliefs about profit threaten the moral foundations of capitalism, which hold that to meet one's own needs, one must meet the needs of others by providing something of value. Correct or not, if people view profit as gained at the expense of society at large, then the market economy may impose psychological costs on the public (Kasser et al. 2007). A market society relies on the willing participation of its members, but individuals may be reluctant to participate in a system they view as morally bankrupt. Even if the market is an efficient means of allocating resources, as many scholars stress, our profit-driven system could erode the very social fabric on which it relies for success. The public may reject a system in which profit is seen as taken rather than created.

Appendix A: Study 3 Scenarios

A for-profit corporation sells [non-profit organization provides] blood plasma to hospitals. The corporation [organization] requests volunteer donations of blood and sells [provides] it to hospitals for \$180/pint.

A for-profit corporation sells [non-profit organization provides] jewelry and handicrafts made by artisans in developing nations to consumers in the developed world. The corporation [organization] buys large quantities of quality handmade jewelry and crafts from poor artisans in developing nations for prices equivalent to a few U.S. dollars, on average. The corporation [organization] then sells these authentic jewelry and crafts in retail outlets in developed nations for prices ranging from \$30 to \$300.

A for-profit corporation [non-profit organization] develops new medical technologies to sell [provide] to hospitals. The corporation [organization] identifies inventors of promising new medical technologies and buys the rights to manufacture and distribute these technologies for an initial lump sum payment. The corporation [organization] then develops and sells [provides] the technologies to hospitals, and revenues are often many times greater than the initial lump payment.

A for-profit corporation [non-profit organization] provides microloans to poor people in developing nations who want to start small businesses. The interest rates on these loans are high, often as much as 70% APY, which the corporation [organization] states is necessary to cover the high origination costs of the loans relative to their size.

A for-profit corporate coffee chain [non-profit coffee house] sells “Fair Trade” coffee among its products. Certified fair trade coffee producers must sell their coffee at a higher price so that small coffee farmers are paid more. The corporation [organization] charges 30% more for a cup of fair trade coffee than it would for regular coffee.

Appendix B: Study 4 Scenarios

An entrepreneur starts a medical billing services company. The company helps transition medical practices to electronic billing and record keeping and develops simple, efficient software to manage these processes. For medical practices, this transition tends to lead to reduced costs, fewer mistakes, and better patient outcomes. Demand for these services is enormous, and few competitors exist that can provide this quality of service. While the company could charge a standard markup over its costs and be profitable, it finds that offices will pay over twice this amount, so it sets its prices at this higher level. As a result, the company's profits are very sizable. The company knows that within a year, other competitors will be able to imitate their software and enter the market, driving everyone's prices down and returning the company's profit to normal levels. In the meantime, in its first year of operation, the firm is extremely profitable.

A firm that manufactures parts for mobile computing devices has just improved its manufacturing process. Its innovative method simplifies production and requires less use of precious metals, significantly reducing manufacturing costs. The price of these metals has been rising, leading to higher prices across the industry. Having reduced its costs, the firm could charge less than its competitors, but continues to sell at industry prices. As a result, its profit has increased dramatically. Within a year, the firm's competitors will figure out how to make similar changes to their own manufacturing processes, and competition will drive everyone's prices down, returning the firm's profit to its normal levels. In the meantime, in the first year after it makes these changes, the firm is extremely profitable.

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