

WWZ Reseach Seminar

Tuesday, October 20, 2020, 12:30pm, S 15, HG, and Zoom

Prof. [Thomas Epper](#), University of St.Gallen

"Bounded Rationality in Choice over Money and Effort"

(joint with Alexander Koch and Julia Nafziger)

Abstract

We study risk taking in the money and the effort domain using an experimental setup with real incentives. In both domains subjects were exposed to triplets of lotteries with equivalent terminal outcome distribution but varying description frame (gain, loss and mixed). We present our results in three parts: In a first part, we propose a series of nonparametric tests that shed light on the description variance and domain-dependence of risk preferences. We examine a number of critical predictions on reference dependence proposed by the literature, such as diminishing sensitivity, reflection and prospect-theory loss aversion. In a second part, we introduce a model-free method to identify rationality types. Our method yields a parsimonious characterization of description (in-)variance in our sample. We pose the questions whether individuals' degree of rationality is consistent across outcome domains and whether the documented departures from neoclassic model predictions are quantitatively relevant. In a third part, we calibrate a structural behavioral model and derive an individual-specific index of asset integration. Our comprehensive description of bounded rationality provides novel insights on the descriptive accuracy and external validity of popular theories of choice under risk.