Risky choices in strategic environments: An experimental investigation of a real options game

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Polo Fabio Ferrari, via Sommarive 9 - Trento

Abstract
Managers frequently make decisions under conditions of fundamental uncertainty due to the stochastic nature of the outcomes and competitive rivalry. In this presentation, we show the advantages to adopt a behavioral approach by experimentally testing a theoretical model under fundamental uncertainty and competitive rivalry by designing a sequential interaction game between two players. Analyzing the “traditional” leader–follower game in the ROG (real options game) literature from the perspective of behavioural economics would improve our understanding of how individuals make decisions in stochastic and competitive environments. Given our experimental results, the theoretical model needs to be revisited. The standard model of monetary payoff-maximizing agents should be substituted by one of decision makers who maximize a utility function which includes the psychological cost induced by strategic uncertainty.

Biosketch
Azzurra Morreale holds a PhD in Industrial Engineering and Management and works as a Postdoctoral Research Fellow at Lappeenranta University of Technology, Finland. Her research is concentrated on behavioral issues in finance and in decision-making and on real option analysis especially connected to corporate alliances.

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