Varieties of Risk Elicitation

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Abstract

We explore risk preference elicitation via direct choice over lotteries. Our choice tasks come in several varieties whose attributes vary incrementally, as the tasks range from choosing between two lotteries to selecting a portfolio from a continuous set of bundled Arrow securities. Each subject completes multiple instances of very different tasks, and responses are summarized in parametric (CRRA) and non-parametric (normalized risk premium) measures of risk preference. The distribution of elicited preferences varies widely across tasks, and within-subject correlation across some pairs of tasks is quite low. Observed variation in elicited preferences across tasks is explained in part by variation in design attributes, such as graphical vs text representation, that have no role in standard decision theory.

Keywords: Risk Aversion, Experiment, Elicitation, Multiple Price List

JEL Classifications: C91, D81, D89