Violations of Expected Utility: The Common Ratio and Common Consequence Effects

Behavioral Economics Spring 2017 Mark Dean The Common Ratio Effect

100% \$8 vs 80% \$10 \$0

- Which would you choose?

The Common Ratio Effect

25% \$8 75 % \$0 vs 20% \$10 80% \$0

- Which would you choose?

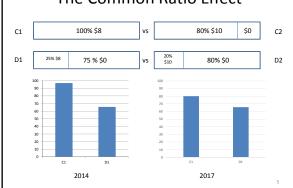
The Common Ratio Effect

C1 100% \$8 vs 80% \$10 \$0 C2

D1 25% \$8 75 % \$0 vs 20% 510 80% \$0 D2

• Many people choose C1 and D2

The Common Ratio Effect



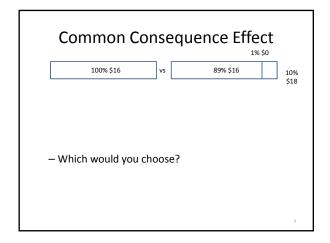
The Common Ratio Effect

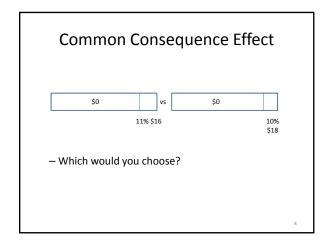
C1 100% \$8 vs 80% \$10 \$0 C2

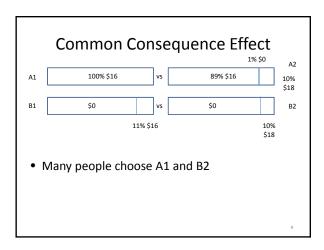
D1 25% \$8 75 % \$0 vs 510 80% \$0 D2

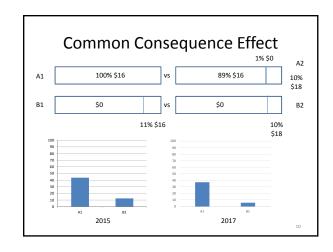
- Claim:
 - C1 and D1 consistent with EU (55%)
 - C2 and D2 consistent with EU (14%)
 - C1 and D2 inconsistent with EU (22%)
- C2 and D1 inconsistent with EU (9%)
 Significant violations of EU
- These violations are not random

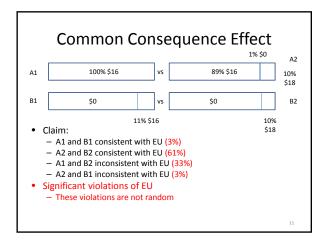
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And the winner is.... • Jillian Knoll • Randomly Selected Question: A • You Chose A2

