

Online Appendix 2 to "Narrow Bracketing and Dominated Choices": Certainty-equivalent elicitation in the survey experiment

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The following are excerpts from the instructions for eliciting the certainty equivalents. The excerpts concern the 50/50 lottery between \$850 and \$2350.

Decision 1: Consider the following:

Q. You have a 50% chance of winning \$850 and a 50% chance of winning \$2350

R. You will be given some unknown amount of money

What is the smallest amount of money that you would need to be given in option R for you to select that option over taking your chances with option Q?

Rules:

Before the study began, an unknown amount between \$850 and \$2350 was determined for option F. If this unknown amount is higher than your answer, then you will receive the unknown amount. If the unknown amount is lower than or equal to your answer, you will receive option E.

All amounts between \$850 and \$2350 are possible and equally likely, as the unknown amount.

The results of this and the elicitation tasks for the other lotteries are summarized in the following two tables, separated into two groups: first, 7 tasks where multiples of \$100 were used as outcomes and the spread was \$1000, and second, 4 tasks where multiples of \$50 were used and the payoff spread was \$1500. Several tasks appear more than once in the tables because they were conducted in more than one treatment.

Lot. payoffs	% min	Mean of stated π	% risk neutral	% max
-1500,-500	0.05	-354.53	0.08	0.62
-1000,0	0.03	-303.51	0.15	0.16
-1000,0	0.05	-265.40	0.15	0.13
-500,500	0.07	-139.90	0.03	0.35
-500,500	0.04	-132.93	0.05	0.22
0,1000	0.01	66.70	0.38	0.12
0,1000	0.03	141.91	0.26	0.10
0,1000	0.05	175.95	0.30	0.04
500,1500	0.38	236.74	0.21	0.06
1000,2000	0.44	229.66	0.26	0.08
1500,2500	0.41	195.82	0.26	0.11

Table OA2.1: Stated certainty equivalents of 50/50 lotteries with payoff spread \$1000.

The means of the respondents' stated risk premia for the 11 50/50 lotteries are reported in the third columns of Tables OA2.1 and OA2.2, alongside with some other statistics of the elicited distributions. The tables show that the reported certainty equivalents vary widely as the lotteries are shifted across the interval $[-\$1500, \$2500]$, suggesting (together with Proposition 1) a large scope for FOSD violations that are due to the variability of risk attitudes. The results systematically indicate a preference for risk taking in the domain of losses, and a strong degree of risk aversion in the gains domain.

Lot. payoffs	% min	Mean of stated π	% risk neutral	% max
-1400,100	0.02	-567.43	0.01	0.42
-650,850	0.04	-84.41	0.05	0.15
100,1600	0.24	259.52	0.01	0.09
850,2350	0.28	377.73	0.04	0.07
850,2350	0.27	381.2	0.03	0.06

Table OA2.2: Stated certainty equivalents of 50/50 lotteries with payoff spread \$1500.

However, we note that these data are probably unreliable. It seems doubtful that all or even most of the participants have sufficiently well understood the incentive-compatible random-price procedure. Severe limits in understanding are indicated by the large frequencies of extreme responses, as indicated in the columns labelled "% min" and "% max" of the tables: on average over the tasks, 32% of the responses lie at the boundaries of the possible response sets, which indicates that a large proportion may not have given an honest response, because one would need highly unusual preferences to indicate that one is indifferent between a monetary payoff x for sure and a 50/50 lottery between x and $x + y$, where $y \neq 0$. Though this high frequency does not imply that there is no useful information in the responses of the certainty equivalence tasks, it is difficult to draw conclusions from data that are potentially severely biased.