Alleviating Risk Aversion to Uncertain Impact Donations

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Summary

- Causes which support sustainable solutions to today's problems are inherently risky (e.g., research, changing policy).
- Potential donors are widely risk averse^{1,2}.
- We show people are more likely to choose an uncertain impact donation when considering it alongside previous certain impact donations (broad bracketing³) vs. in isolation (narrow bracketing).
- Previous literature suggests broad bracketing reduces risk aversion because gains & losses balance out across multiple gambles, so it is not clear why broad bracketing also works with previous non-risky donations.
- We find that broad bracketing, even with riskless donations, makes a given level of uncertainty seem relatively lower stakes, which reduces risk aversion via the peanuts effect⁴.

Methods

- We manipulate the bracketing context across 5 preregistered studies.
- S1 & S2 Single choice vs. multiple discrete choices

Exclusively make a certain vs. uncertain decision



First make several decisions between 2 **'C or D** certain options

<u>S3 & S4</u> – Ranked single choice vs. split donation choices (DV is whether uncertain option is selected or ranked in top 2)

Identify top donation preference by ranking all 4 options





Select 2 options to split donation between

or Y

<u>S5</u> – Single choice vs. multiple discrete choices vs. single aggregate choice

First two conditions are the same as S1 & S2; single aggregate is economically equivalent to multiple discrete choices for included participants who choose dominating options A & C



Single aggregate condition

When choosing between an uncertain but potentially high impact donation (vs. a certain but lower impact donation), more people choose the uncertain option when it is combined with a greater certain impact and thus the uncertainty seems lower stakes.



Zoom: <u>https://nyu.zoom.us/j/92703161784</u> Email: <u>shoshana.segal@stern.nyu.edu</u> Questions?

Results <u>S1, S2, & S3</u> Across different paradigms, more people chose the uncertain impact option when it was combined with other certain impacts (ps < .01).

<u>S4</u>

- N=141

60%

40%

20%

0%

5978(86)90018-X

VINITER N



We show that our effect is not just due to a desire to have at least some impact; we replicate the effect even when donors are sure to have a small impact

2 (choice context: split, single) x 2 (uncertain range: includes 0, does not include 0) within-subjects (4 responses per participant)



Simple effect within non-zero condition: p = .005

References

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