Systematic Differences in Risk Preferences between Financial and Social Contexts

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Abstract

This research examines systematic differences in risk preferences between financial and social contexts. People tend to be loss averse in the financial domain but gain averse in the social domain i.e., more (less) risk-seeking in the gain frame than in the loss (gain) frame in the social (financial) domain.

Introduction

A central tenet of prospect theory has been the idea of loss aversion. However, Gal and Rucker (2018) cast doubt on whether loss aversion is a universal principle. The evidence for loss aversion comes from studies conducted in the financial domain. There is still much to learn about how people prefer risk in different contexts.

Unlike financial risk, social risk entails anticipated emotional reactions constructed by social interactions. Thus, financial risk is an affect-poor domain, with a more instrumental purpose, while the social domain is an affect-rich domain with a hedonic purpose. Although previous research studied affect-intensive- goods, few have tried to understand how people appreciate affective outcomes.

Hsee, Christopher K. and Elke U. Weber (1999), "Cross-national Differences in Risk Preference and Lay Predictions," *Journal of Behavioral Decision Making,* 12 (2), 165–79.

Gal, D., & Rucker, D. D. (2018). The loss of loss aversion: Will it loom larger than its gain? *Journal of Consumer Psychology*, 28(3), 497-516.

Mandel, N. (2003), "Shifting Selves and Decision Making: The Effects of Self-Construal Priming on Consumer Risk-Taking," *Journal of Consumer Research,* 30 (1), 30–40.

Experimental Study 1

Participants imagined themselves in different risk-taking behavior situations. Each situation consists of a series of choices between a safe option and a risky option (Hsee and Weber 1999; Mandel 2003).

Study Design a 2 (thinking-style: reasons vs. feelings) × 2 (domain: financial vs. social) × 2 (frame: gains vs. losses) mixed-factorial design; Mturk workers(N=238)

DV = Risk Preference (RP) Index RP (Hsee and Weber 1999)
A risk preference index that indicates the participants' *switching point* from a risky option to a sure option in the gain conditions or the participants' *switching point* from a sure option to a risky option in the loss conditions. A higher RP index indicates higher risk-seeking preferences.

- **The safe option** varied from lower in expected value to higher in expected value than the risky option.
- **The risky option** : an option that consists of a 50% chance of no gain (loss) & a 50% chance of a maximum gain (loss) (e.g. flip a coin and receive $2000 if heads and $0 if tails). The risky option was always the same

Participants imagined: (1) winning a lottery ticket (financial gain), (2) paying a parking ticket (financial loss), (3) choosing a shirt to wear to a family gathering (social gain; Mandel 2003), and (4) playing truth or dare with friends (social losses; Mandel 2003).

Study Results

Individuals are more risk-seeking in gains than losses in social risk-taking situations ($t(80) = -1.92$, $p < .051$), compared to financial risk-taking situations where the opposite pattern holds ($t(132) = 5.9$, $p < .001$, $F(1, 236) = 474.343$, $p < .001$.

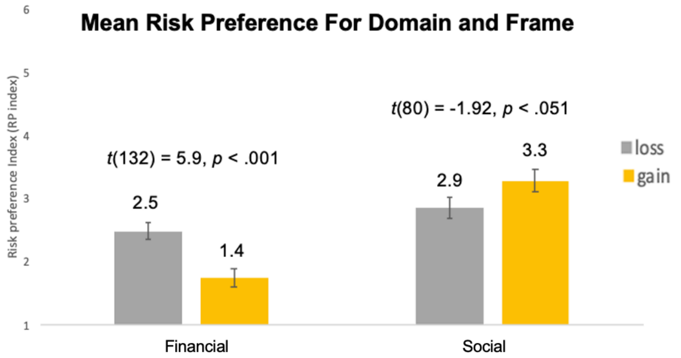
Experimental Study 2

Study Design a 2 (thinking-style: reasons vs. feelings) × 2 (domain: financial vs. social) × 2 (frame: gains vs. losses) mixed-factorial design; Mturk workers (N = 307)
DV = Risk Preference (RP) Index

Participants imagined: (1) winning a lottery ticket (financial gain), (2) paying a parking ticket (financial loss), (3) gaining admiration from coworkers (social gain), and (4) losing admiration from coworkers(social losses).

Study Results

A significant interaction between domain and frame ($F(1, 210) = 25.101$, $p < .001$).
The three-way interaction between thinking style, frame, and domain was not significant ($F(1, 210) = 0$, $p = .993$).
Experiment 2 further explored the role of differences in two anticipated emotions (relief/regret) as an underlying mechanism but there was no significant mediation effect.



Conclusion

- Unlike the financial risk-taking behavior, people are more risk-seeking in the gain than loss in the social domain. A financial loss is more distasteful than not getting a gain and individuals will bear more risk to avoid it. However, the lack of a social gain is more distasteful than a social loss and individuals bear more risk to avoid it.
- We tested whether this effect was moderated by thinking-style (Experiment 1) or mediated by anticipated emotions (Experiment 2). No evidence for either of these process accounts were found.