



People Behave as if they Anticipate Regret Conditional on Experiencing a Bad Outcome

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Office hour link:
<https://berkeley.zoom.us/j/91260176172?pwd=UUUpUQ0hVbUpyWnNpTGx4WnRYaTFyUT09>

Feedback/request draft:
http://ucbpsych.qualtrics.com/jfe/form/SV_eyRlSMy8F5y1xfn

Introduction

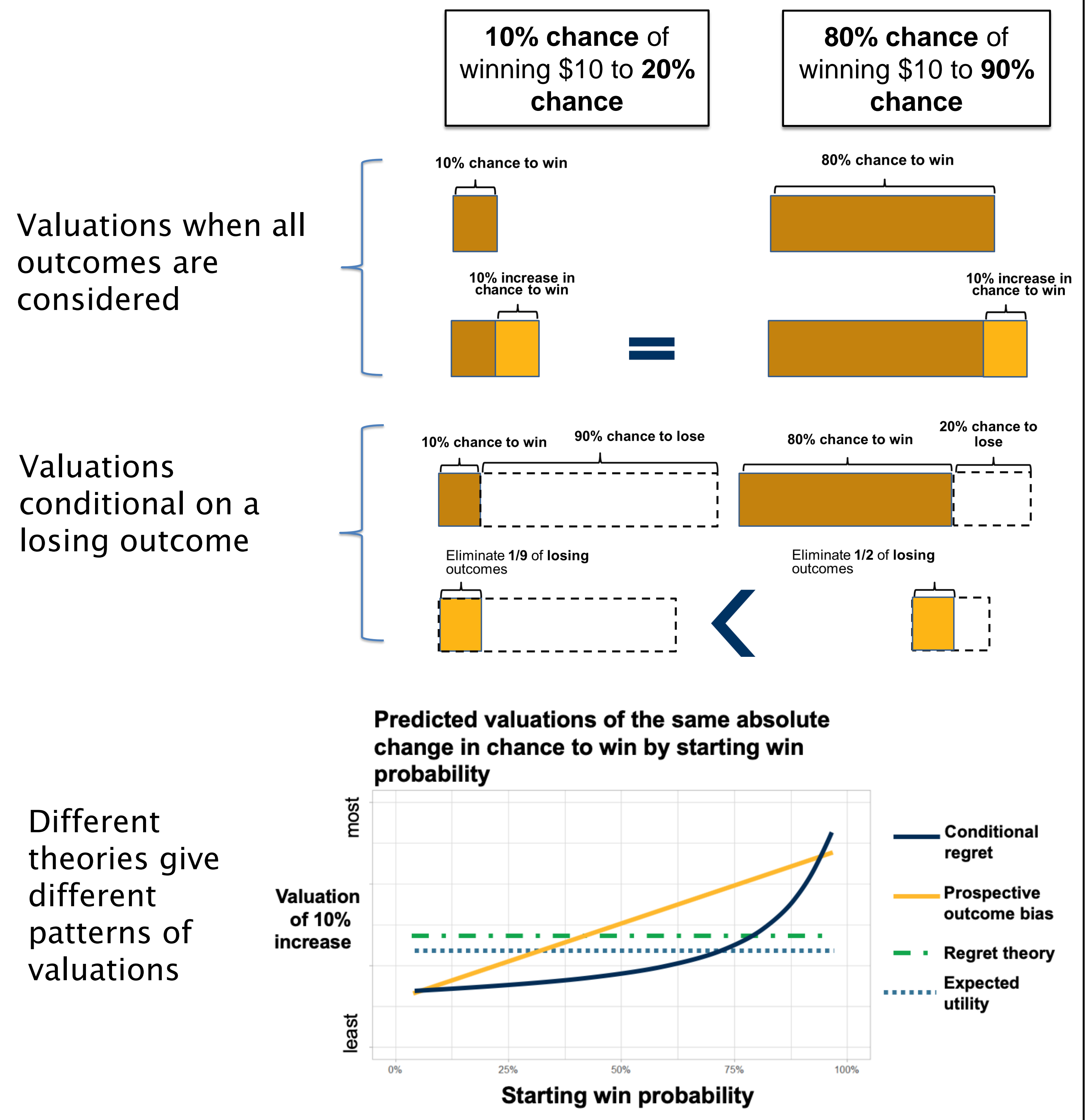
- Decision-makers often must decide if they want to invest scarce resources to reduce risk or instead save those resources
- Regret common in these types of decisions made under uncertainty; received a lot of attention in JDM, behavioral economics
- *Anticipated* regret can powerfully impact preferences/decisions
- How do people actually anticipate regret?

Existing models of regret: "What is my regret, conditional on all possible outcome?" (complex)

Our model of regret: "If there is a bad outcome, how often is it my fault?" (simple)

People anticipate regret conditional on experiencing a bad outcome, and value changes in chances by the proportion of losing outcomes eliminated.

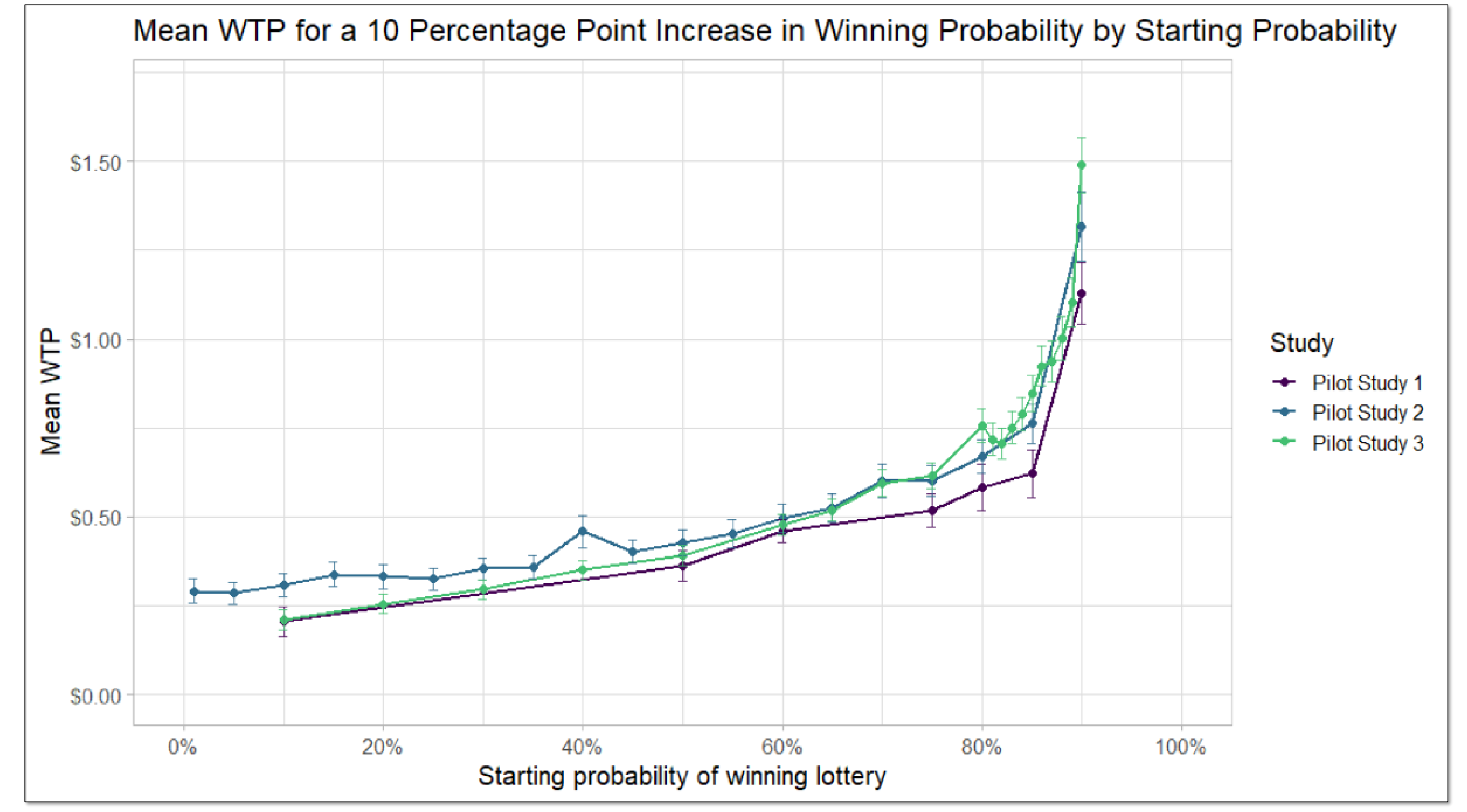
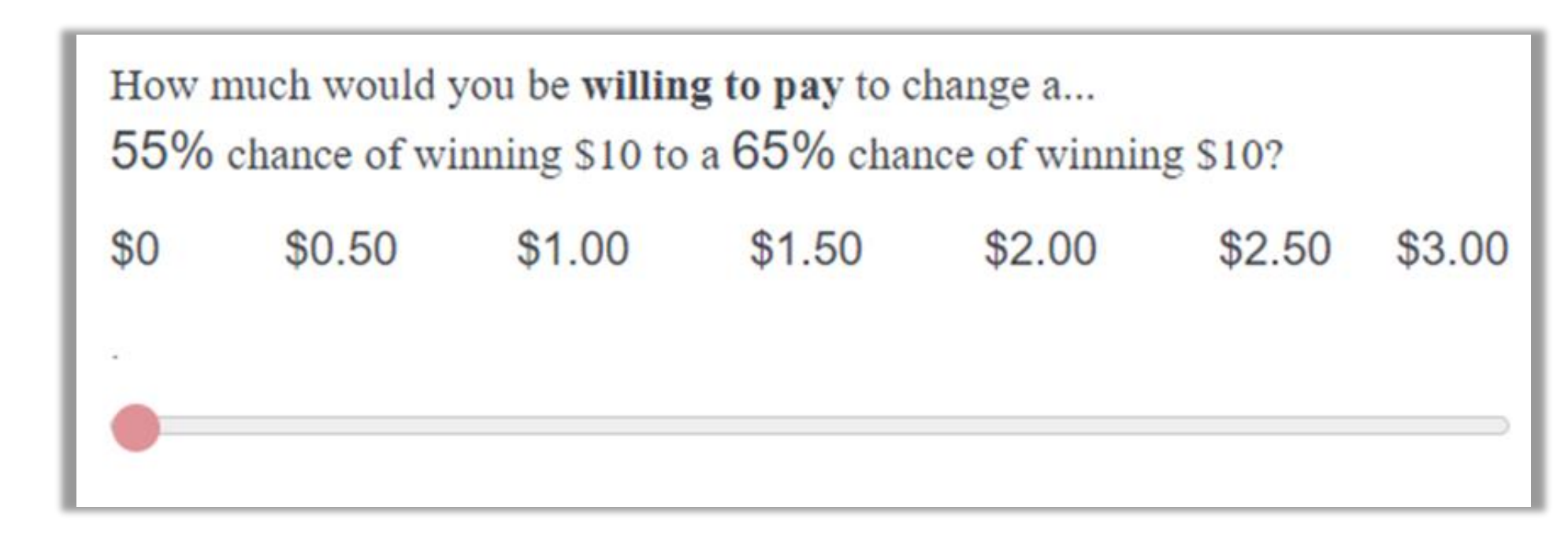
Our model suggests very different valuations of the same EV change:



Pilot Studies 1-3

N = 67, 95, 258

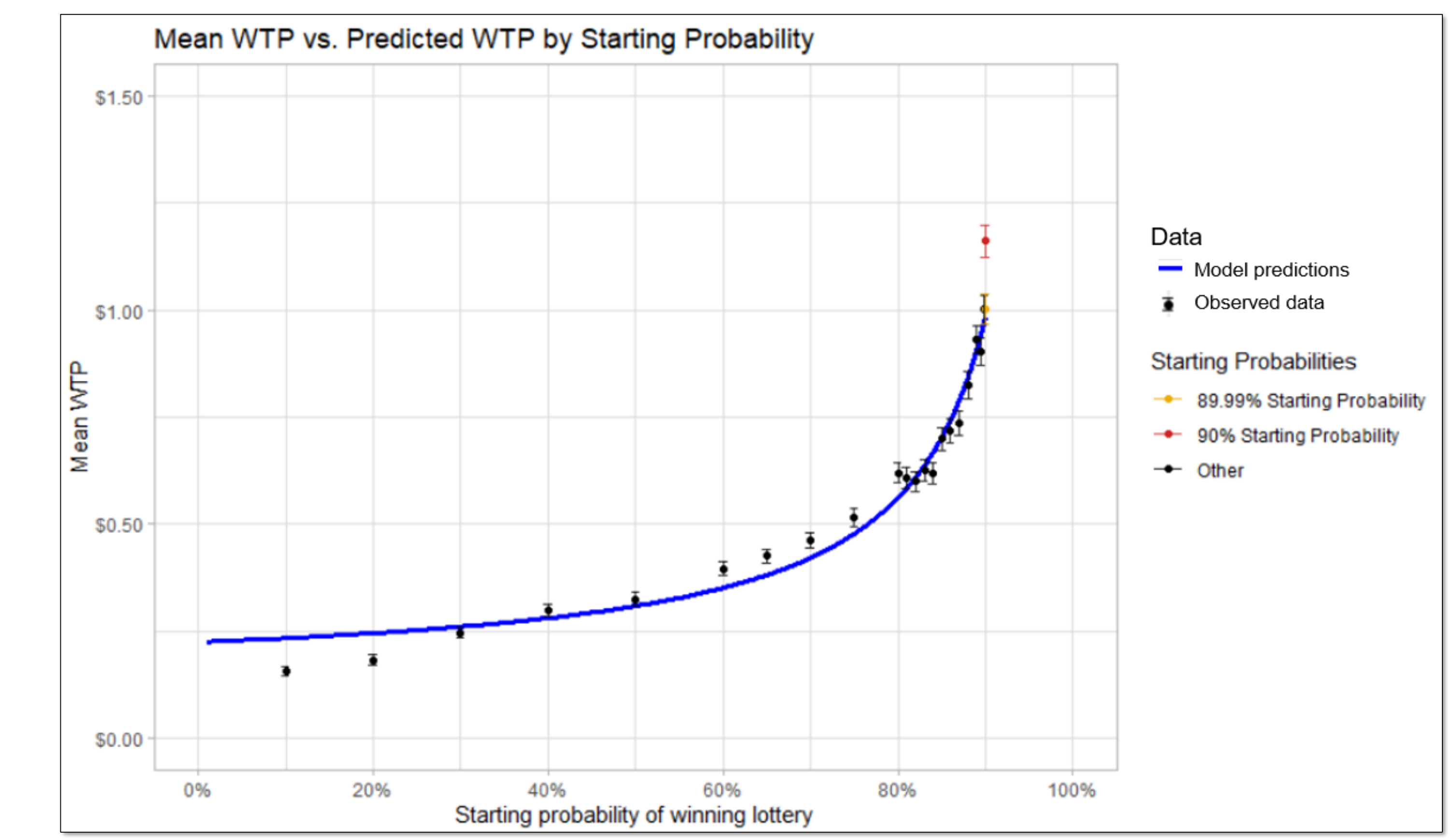
- Within-subject ~20-40 trials eliciting WTP for 10% increase in chance of winning a lottery



Study 1

N = 202

- Incentive compatible, online using BDM
- Replicated incentive-compatible in lab



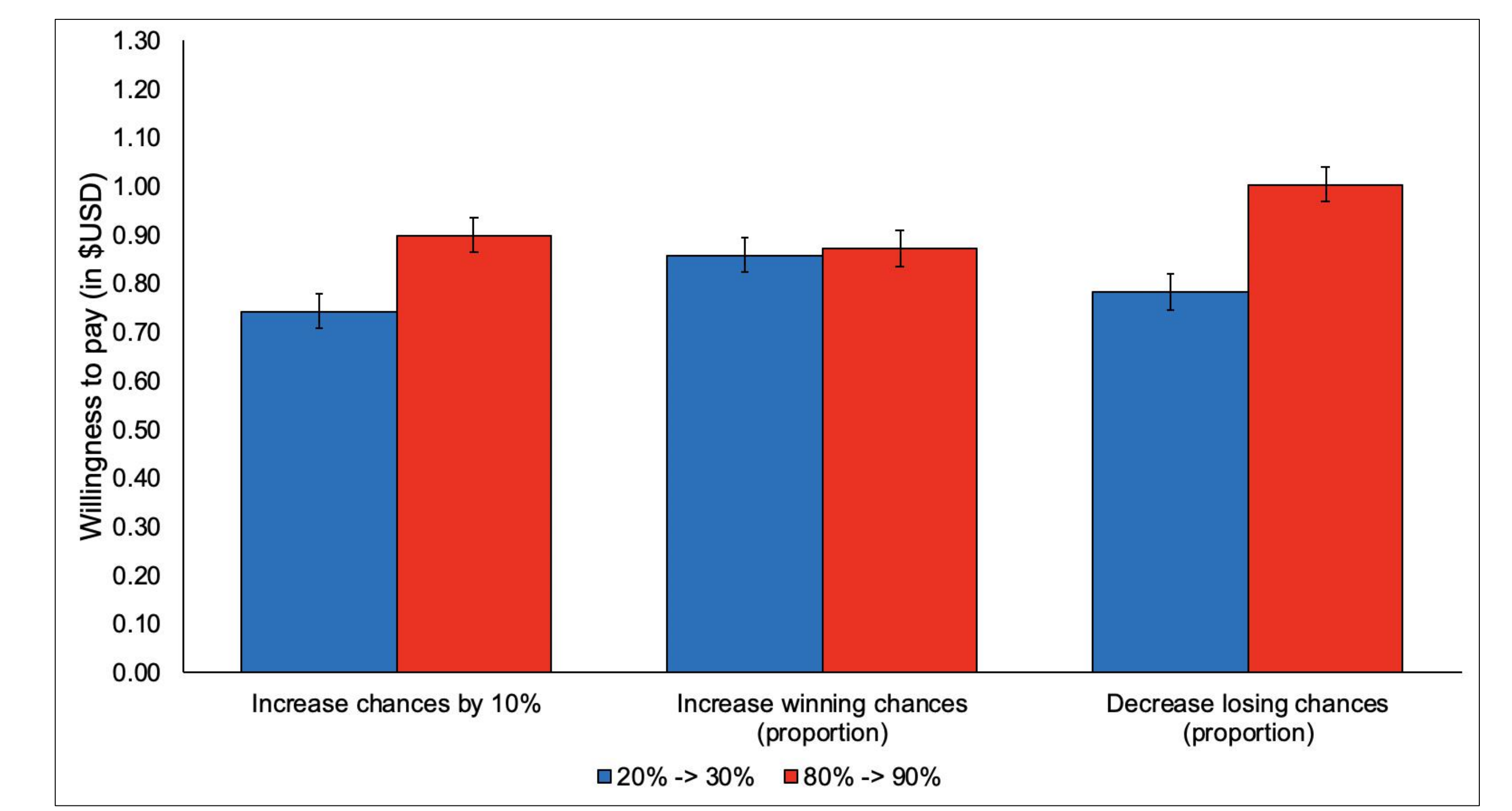
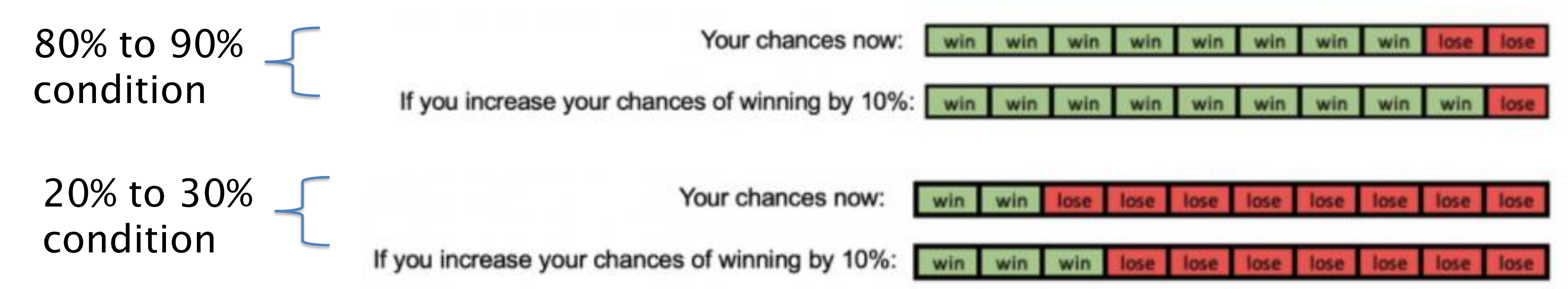
- We observe risk seeking for probabilities above ~75%, and risk aversion below that point (within the same people on the same task)
- We also see that the certainty effect is somewhat accounted for by shape of the curve

Study 2

N = 2,241

Test three different framings:

- Neutral
- Proportional increase in winning outcomes
- Proportional decrease in losing outcomes



Participants' mean willingness-to-pay to change their chances of winning a given lottery by 10 percentage points (with +/- 1 SE bars).

Applications & Implications

- Strong evidence of risk preferences not being primarily individual trait
- Bias in important domains (e.g., medicine, finance)
- Can appeal of certain outcomes be traced to elimination of regret?

