

Discussion of “Don’t Put All Your Eggs in One Basket” authors: Kfir Eliaz and Guillaume Frechette

Discussant: David K. Levine

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What the Paper Does

- Finds ambiguity aversion when there is no ambiguity
- They say that they discover the use of heuristics in an inappropriate setting
- Might be true, might not (pretty vacuous as a theory) – the careful exploration of other theories indicates that they seem to recognize that their evidence is neither for nor against the use of heuristics

Explanations that do not work

Reduction of compound lotteries - nope

- Note for reference that in the treatment with “less opportunity for hedging” 33% still pay

Anticipated regret

- Not clear what it means
- But probably not

Ambiguity aversion the phenomenon vs. Ambiguity aversion the theory

This experiment confirms the former, contradicts the latter

A good theory should explain both ambiguity aversion and the results of this experiment

Theories designed to explain ambiguity aversion without reference to ambiguity

Preferences over issues (Ergin/Gul)

- Does well

Bundled risk

- Does well (but maybe another experiment will show it is not true)

Why does this behavior make sense?

Psychologists: everyone is nuts, so they don't probe to see if behavior might make sense; for example psychologists thought pigeons were mistaken when actually they were

Economists: take their theories too literally, so they perform horribly in real settings such as the centipede game or ultimatum bargaining

Step back: Why on earth should people be ambiguity averse (in the broad sense) – behavior seems dysfunctional

Ergin/Gul and Bundled risk basically just assume that this is the way people are

But: the game is not really a game against nature at all, it is a game against the experimenter

People cheat – ambiguity and this experiment are sensible ways of insuring against the experimenter cheating

Needed: a theory to go with this

Fortunately psychologists have provided us with a store of data

So things we can look for

- Have you ever participated in a psychology experiment?
- Are you a fan of magicians?
- Do you think that Las Vegas dealers cheat at cards?
- Etc.