

A Zero Effect Explains Deviations from Expected Utility in Allais-type Tasks

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Resumo/Abstract:

This paper provides a simple explanation for systematic violations of expected utility theory in Allais-type tasks. We demonstrate that the main reason our participants violate expected utility theory is aversion to receiving a zero outcome, and not an attraction to a certain outcome. We call this phenomenon the zero effect. We test the predictions of numerous alternatives to expected utility theory. None has incremental explanatory power beyond the zero effect.