

Connecting Common Ratio and Common Consequence Preferences – Christina McGranaghan, Kirby Nielsen, Ted O'Donoghue, Jason Somerville, and Charles Sprenger

One Sentence: This manuscript studies connected common ratio and common consequence problems to deliver a richer exploration of the shape of non-expected utility risk preferences than either problem in isolation.

Abstract: Common ratio (CR) and common consequence (CC) problems are foundational deviations from expected utility (EU), but have been studied mostly independently and with separate experimental parameters. We study connected CR and CC problems and demonstrate how the connected patterns of behavior provide important insights on the shape of risk preferences and distinguish between broad classes of non-EU models. We find small but significant CR preferences and systematic reverse CC preferences. Through their connection, this implies that individuals have positive attitudes towards mixing lotteries. Our results are inconsistent with leading non-EU models, and we propose and test an ex-post model which rationalizes our findings.

Key Words: Non-standard Risk Preferences, Experiment, Behavioral Economics