

Risk Preferences for Losses – Evidence from Experiments



Bachelor Thesis
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Supervisors:
Prof. Dr. Thorsten Hens
Nilufer Caliskan

Author: Julian Mittmann

Executive Summary

In the last few decades of the twentieth century, a lot of research has been conducted to study the impact of loss aversion, a puzzling tendency in behavioral economics that people generally feel a stronger impulse to avoid losses than to acquire gains of equal magnitude with regards to decision-making. However, the findings are often variable or even inconsistent and cannot be generalized to develop a uniform perception of behavior when faced with uncertain decisions that involve both positive and negative outcomes.

This bachelor thesis addresses three major issues related to the concept of loss aversion: It reviews a selection of experimental studies investigating the impact of loss aversion on decision-making in both laboratory and real-world environments. An in-depth analysis of the main conclusions and different findings considering strengths, weaknesses as well as possible flaws or bias in the experimental design led to the conclusion that researchers will need to include the empirical findings of existing behavioral models into a unified measure rather than a collection of interesting parameters, allowing to fully capture the effect of loss aversion on individual behavior. To secure empirical relevance, all results from the field, the lab and the natural environment will need to be considered to explore the full influence on decision-making and provide a general measure of loss aversion. Its nature is far too complex to be modeled only as a mathematical constant; instead, its ubiquitous emergence across a variety of individuals and environments is indicative of a basic psychological attribute that widely affects human behavior – including decision-making. The impact appears to vary in different individuals.