

Deliberate Randomization in Choice List Elicitation of Risk Preference

Abstract:

In the setting of a choice-list elicitation of certainty equivalent in which the lottery option is fixed while sure outcomes vary, we investigate the pervasive phenomenon of subjects switching multiple times between these two options over a range of sure outcomes. Relating to Agranov and Ortoleva's (2016) finding of subjects deliberately switching between two lotteries when told in advance that the same two lotteries will be presented three times in a row, this multiple-switching behavior (MSB) enables a discrimination in favor of models of deliberate randomization based on quasiconcavity in probability (Machina, 1985) rather than negative certainty independence (Dillenberger, 2010). Our findings demonstrate that much of the observed MSB in the elicitation of risk preference are data rather than errors.