Mixed Up! Affective States Elicited by Investment Gambles

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Abstract

An investment gamble (or, mixed gamble) is one requiring an initial investment and with the potential for an ambiguous amount of either gain or loss.

We explore investment gambles and affective states of fear, hope, optimism and pessimism. In an investment gamble, we found that the amount of potential loss had an effect on affective state. In particular, faced with an increase in potential loss, the proportion of subjects reporting fear and pessimism increases while that reporting hope and optimism decreases.

Prior research suggests that these states are associated with a measure of cognitive bias, specifically ambiguity aversion. Together with our finding, this implies a psychometric approach might be developed to study attitudes towards ambiguous investment gambles.

Methods

- 61 participants
- Condition 1: possibility of investment loss only
- Condition 2: possibility of a ‘great deal’ of loss in addition to investment loss
- Outcomes: Choices from polarized pairs of affective states: hope/fear; potential for satisfaction (optimism)/potential for dissatisfaction (pessimism)

Results

Faced with an increase in potential loss from an investment gamble, the proportion of subjects reporting fear and pessimism increases while that reporting hope and optimism decreases. Considering the α-MEU in terms of these descriptive labels for affect, the parameters called hope and optimism place more weight on the “best outcome”, suggesting ambiguity seeking, while those called fear and pessimism place more weight on the “worst outcome”, suggesting ambiguity aversion.

Discussion

Does our finding suggest that people have greater ambiguity aversion with this increase in potential loss?

Further research is planned to study this.

Can states of hope, fear, optimism and pessimism be used to help characterize attitudes towards ambiguity?

If so, this would imply that a psychometric method to characterize attitudes towards ambiguity might be developed. Unlike extant methods, this method would not require an accurate numerical description of the possible outcomes of the investment gamble.

References


Comments appreciated! jcsonka@uwaterloo.ca