

Risky Choice in the Limelight

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Extended Abstract

A recurring concern in empirical research on decision making is that specific contextual aspects may restrict the generalizability of results. One such aspect is the degree of scrutiny under which a decision is made. Surprisingly, whether and how public scrutiny influences risky choice has received relatively little research attention. The current paper attempts to explore this question.

To analyze how risky choice in the limelight differs from that under usual experimental lab conditions, we conducted two incentivized experiments that mimicked the game of the TV show *Deal or No Deal*. In both experiments, we employed laboratory and limelight treatments. In the laboratory treatments, subjects made decisions in a standard, computerized laboratory setting as typically employed in economic experiments. In the limelight treatments, subjects made their choices in a simulated game show environment, which included a live audience, a game show host, and video cameras.

We consider two ways in which the differences between the treatments can influence risky choice. First, we investigate whether the general level of risk taking differs between treatments. Second, we investigate whether the qualitative pattern in risk behavior is similar under the two conditions.

Unlike the common belief, we find that subjects are more risk averse in the limelight than in the anonymity of a typical behavioral laboratory. Simple statistics, probit analyses, and structural choice model estimations consistently convey this finding for both our experiments. The estimates for structural choice models suggest that the impact of the limelight on risk parameters is substantial. However, the qualitative pattern in risk behavior is not affected: in both treatments, subjects take more risk when the game develops either substantially worse or better than expected. These effects are known as the break-even and the house-money effect (Thaler and Johnson, 1990). Under both experimental conditions, prospect theory (PT) provides a better explanation for subjects' behavior than expected utility of wealth theory (EU), since the PT model can capture this path-dependent behavior while the EU model cannot.