

Departmental Seminar 03.07.2023

Antonio Penta, Pompeu Fabra (Host: Dietmar Fehr)

Title:

Attitudes towards success and failure* (with Larbi Alaoui)

Abstract:

Individuals often attach a special meaning to attaining a certain goal, and getting past a threshold marks the difference between what they consider a success or a failure. In this paper we take a standard von Neumann-Morgenstern Expected Utility setting with an exogenous reference point that separates success from failure, and define attitudes towards success and failure as features of preferences over lotteries. The distinctive feature of our definitions is that they all concern a local reversal of the decision maker's risk attitude, between risk-aversion and risk-lovingness, across the reference point. Our findings provide a unified view of several well-known models of reference-dependent preferences in economics, finance and psychology, and also include novel representations. We order the intensity of each attitude in the space of preferences, and characterize these orderings in terms of properties of the utility representation, with indices analogous to the well-known Arrow-Pratt index of risk aversion. Our findings shed new light on frequently used notions of reference-dependent preferences, and suggest new ways of conducting comparative statics in these settings. Finally, we argue that our framework may prove useful to incorporate, within a standard economic model, behavioral manifestations of personality traits that have received increasing attention within the empirical economics literature.