Experience theory, or how desserts are like losses:

New behavioral and neurophysiological insights into how extreme reference points explain risk preferences for everyday experiences

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Extended Abstract

Although many experiments have explored risk preferences for money, few have systematically assessed risk preferences for everyday consumption experiences. This line of work offers a conceptual model and provides evidence from eight experiments to propose that, in contrast to a typical “zero” reference point for monetary choices, reference points for experiential choices are set at more extreme outcomes, leading to concave utility for negative experiences but convex utility for positive experiences. As a result, people are more risk-averse for negative experiences such as dentist visits—as for monetary gains—but more risk-seeking for positive experiences such as spa visits—as for monetary losses. Should the best spa one has visited represent a reference point when choosing between two spas, then paradoxically many of the available positive options could be treated in prospect as comparative losses. Our most recent investigation had set out to test some of these ideas using both behavioral observation and functional neuroimaging. We expected that, if our theorizing is correct, and consumers indeed use more extreme reference points for choices of experiences (vs. money), then we would expect to see a greater involvement of consumers’ explicit memory of facts and events (i.e., medial temporal
lobe) because experiential choices could—to a greater extent than monetary choices—be based on extreme reference points, which could ultimately tap the decision maker’s explicit memory of facts and events. We employed both a behavioral decision task and functional magnetic resonance imaging to test our proposition. Data were subjected to different machine-learning algorithms aimed to derive prediction accuracies of risky choice. Results provided preliminary insights into a possible involvement of a structure of the medial temporal lobe to predict risky (vs. safe) choices of positive experiences (but less so for choices of positive monetary gambles).

References
