

# CEAR Workshop

## *The Welfare Evaluation of Risk Preferences*

Thursday March 19 – Friday March 20

Rome, Italy

### General Information

There are many settings in which policy-makers make welfare judgments about risky choices that people make. This workshop examines the economic foundations for these judgments, with an emphasis on measurement and quantification that is consistent with theoretical foundations. Is it possible for policy-makers to know when “mistakes” entail large welfare losses and when mistakes involve tiny welfare losses? Are there any useful tools to emerge from the field of behavioral welfare economics in terms of evaluating risk preferences?

The first day will focus on specific applications to gambling behavior, and how surveys and experiments can be used to evaluate the welfare costs of gambling. The relationship between welfare cost and the classification of gambling risk in terms of “problem gamblers” or “pathological gamblers” will be examined.

The second day will focus on broader methodological questions and different applications to insurance. Many behavioral economists characterize EUT as a normative theory of decision making under risk and non-EUT models as descriptive theories. This is loose: EUT is a descriptive theory that has some normative properties, whether or not it is a good descriptive theory. Conversely, some non-EUT models have known normative properties, apart from being allegedly better descriptive models. One example is the claimed “ecological rationality” of certain heuristics. Before we design policy to nudge someone in the right direction, what direction is “up”? Is it always EUT that provides the right metric, and if not what do we mean by the right metric for evaluating risk preferences? Similar questions might be asked about the normative status of Bayes Rule, which plays a critical role in the subjective risk perceptions that also affect behavior towards risk. And Bayes Rule is an additional piñata for constant flogging in Behavioral Finance.

This workshop will focus on longer presentations and discussions than usual, and more panel sessions. It is not intended to be a workshop that just focusses on the instant paper being presented, but at the broader questions posed above.

### Organizer

Glenn Harrison (C.V. Starr Chair of Risk Management & Insurance, GSU, and Director of CEAR) and Don Ross (Professor of Economics and Dean of Commerce, University of Cape Town and CEAR Program Director for Methodology) are the organizers of this workshop. Funding is being provided by the Center for the Economic Analysis of Risk (CEAR) at Georgia State University. See [cear.gsu.edu](http://cear.gsu.edu) for more information on CEAR. Should you have questions, please contact Glenn Harrison at [gharrison@gsu.edu](mailto:gharrison@gsu.edu) or Don Ross at [don.ross@uct.ac.za](mailto:don.ross@uct.ac.za) about the substance of the workshop, and contact Mark Schneider at [cear@gsu.edu](mailto:cear@gsu.edu) with questions about participation and logistics.

## **Location**

The workshop will be held at LUISS, in Rome, specifically in CLASSROOM 4 (Aula 4) at the [Via Parenzo](#) building.

LUISS stands for Libera Università Internazionale degli Studi Sociali Guido Carli, and is an independent university. It has had a long tradition of research in behavioral and experimental economics, and has hosted all of the major conferences in these fields. More information is available at <http://www.luiss.edu/university>



## **Dates & Times**

Thursday 3/19 – 8:45 to 18:30. Refreshments and lunch will be provided.

Thursday 3/19 – 19:30. Dinner for invited guests.

Friday 3/20: 10:00 to 16:00. Refreshments and lunch will be provided.

Contact Mark Schneider at [cear@gsu.edu](mailto:cear@gsu.edu) should you have any special dietary needs.

## **Lodging**

We recommend the *Hotel Mercure* within easy walking distance of LUISS:

<http://www.mercure.com/gb/hotel-3320-mercure-rome-corso-trieste/index.shtml>

## **Confirmed Non-LUISS Participants**

Ryan Brossette (GSU)  
Enrica Carbone (Seconda Università degli Studi di Napoli)  
Matteo Galizzi (LSE)  
Wade Hands (Puget Sound)  
Glenn Harrison (GSU and CEAR)  
Harold Kincaid (UCT)  
Morten Lau (CBS)  
Paola Manzini (St. Andrews)  
Marco Mariotti (Queen Mary University of London)  
Raffaele Miniaci (University of Brescia)  
Ismael Rodriguez Lara (Middlesex University)  
Don Ross (UCT and CEAR)  
Tony Schellinck (FocalResearch)  
Tracy Schrans (FocalResearch)  
J. Todd Swarthout (GSU)  
John Thielman (GSU)

## **Confirmed LUISS Participants**

Daniela di Cagno  
Arianna Galliera  
Giovanni Ponti  
Elisabet Rutström (GSU and visiting LUISS)

## Program

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### Thursday - March 19, 2015

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| <b>8:45 - 9:00</b>   | Administrative Announcements   Welcome and Introductions   |
| <b>9:00 - 10:00</b>  | Glenn Harrison (GSU), "The Welfare Evaluation of Gambling Behavior," providing an overview of a research program combining survey data, lab and field experiments. |
| <b>10:00 - 11:00</b> | Morten Lau (CBS) and Don Ross (UCT), "Gambling Problems in the General Danish Population: Survey Evidence."  |
| <b>11:00 - 11:30</b> | Break. Walk to Tirole Speech   |
| <b>11:30 - 12:30</b> | Keynote address by Professor Jean Tirole, Nobel Prize Winner 2014. Note this is going on outside the regular workshop. <a href="#">more information</a>            |
| <b>12:30 - 14:00</b> | Lunch  |
| <b>14:00 - 15:00</b> | Panel: "Measuring Gambling Risks in the General Population with Surveys" -- Tony Schellinck and Harold Kincaid   |
| <b>15:00 - 16:00</b> | J. Todd Swarthout (GSU), "The Welfare Evaluation of Gambling Behavior: Evidence from the Laboratory"   |
| <b>16:00 - 16:30</b> | Break. Coffee.   |
| <b>16:30 - 17:30</b> | Daniela di Cagno (LUISS), "Gamblers or Investors? An Experiment on the Almost-Winning Outcomes"  |
| <b>17:30 - 18:30</b> | Discussion: "Welfare Implications of Addiction by Design" – led by Don Ross  |
| <b>18:30 - 19:30</b> | Break  |
| <b>19:30 - ?</b>     | Dinner - <a href="#">Ristorante Villa Paganini</a>   <a href="#">Walking Directions</a>  |

### Friday - March 20, 2015

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| <b>10:00 - 11:00</b> | Glenn Harrison (GSU) "Evaluating the Expected Welfare Gain from Insurance"   |
| <b>11:00 - 12:00</b> | Paola Manzini (St. Andrews) and Marco Mariotti (Queen Mary University of London) "Welfare Economics and Bounded Rationality" |
| <b>12:00 - 13:30</b> | Lunch  |
| <b>13:30 - 14:30</b> | Wade Hands (Puget Sound), "Normative Ecological Rationality?"  |
| <b>14:30 - 15:30</b> | Panel: "Lessons from the Workshop and Research Implications" -- Don Ross   |
| <b>15:30 - 16:00</b> | Closing remarks.   |
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