MYOPIC LOSS AVERSION (MLA): THREE POSSIBLE ECONOMIC AND BEHAVIORAL REMEDIES

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Key Words : Myopic Loss Aversion - Decision Under Uncertainty - Equity Premium Puzzle - Endogenous Feedback - Informational Nudge

Main objective

*Our six-treatment experiment investigates whether **endogenous** measures: **using default**, **a costly information** or **the introduction of an informational nudge** (free advice) can curb investors' MLA bias.*

Literature review

- The Equity Premium Puzzle (**Mehra and Prescott,** 1985)
- Myopic Loss Aversion bias as the main explanation for the EPP (**Benartzi and Thaler,** 1995)
- Experimental evidence and design (**Gneezy and Potters,** 1997)
- Endogenization of the feedback frequency (**Fellner and Sutter,** 2009)

Research question: How effective are different economic and behavioral mechanisms in curbing investors' MLA bias?

Hypotheses

H1 **The MLA bias (Gneezy and Potters, 1997):**
investments: *T2 > T1*

H2 **Introducing friction (using default):**
information consulting: *T1 > T3*
investments: *T3 > T1*

H3 **Costly information:**
information consulting: *T3 > T4 > T5*
investments: *T5 > T4 > T3*

H4 **Informational nudge:**
information consulting: *T1 > T6*
investments: *T6 > T1*

Treatments	Choice of the invested amount	Choice to receive feedback	Consultation cost	Informational nudge
T1	Every round	No - received at each round	None	/
T2	Every three rounds	No - received every three rounds	None	/
T3	Every round	Yes	None	/
T4	Every round	Yes	10 ECUs per round	/
T5	Every round	Yes	40 ECUs per round	/
T6	Every round	Yes	None	Yes

Experimental design

Slider task

- *Real effort task (eliminatory)*
- *Reward:* "information account" *of 360 ECUs*

  *To cover possible costs **to consult information** in T4 and T5. If they do not use it to consult information, they can take that extra money home (**in all treatments**).*

Experimental task

- *9 rounds*
- *Investment choice : X ∈ [0 ; 200]*
- *"Endowment account"* : 200 ECUs renewed in each round to bet in the following lottery :

$$\text{Payoff for each round} = \begin{cases} 1/3 & 200 + 2.5X \\ 2/3 & 200 - X \end{cases}$$

- ***Earnings:*** *addition of every rounds' gains + informational account (minus the information's consultation cost for T4 and T5) + show-up fee*

Individual measures

- **Demographics**
- **Financial literacy**
- **Self-declared :** Risk preferences, Impatience, Financial knowledge

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Instructions

Lorsque le curseur est placé sur la valeur cible, la valeur qui indique la position du curseur change de couleur.

Curseur 1
Valeur cible : 23
Position du curseur : --

Curseur 2
Valeur cible : 66
Position du curseur : --

Décision
Tour 1 sur 9

Instructions

Vous disposez de 200 ECU.

Pour rappel, si vous misez X ECU à la loterie :

- vous avez 67% chances de perdre et donc votre gain sera égal à 200 - X ECU
- vous avez 33% chances de gagner et donc votre gain sera égal à 200 ECU + 2,5X ECU

Combien voulez-vous miser sur la loterie ?

Suivant

Résultat
Tour 2 sur 9

Vous avez misé 100 ECU. Le tirage au sort a déterminé que vous avez gagné.

Votre gain pour le tour est donc égal à 200 + 2,5 x 100 = 450 ECU.

Suivant