

The Role of Intuition and Reasoning in Driving Aversion to Risk, Aversion to Ambiguity and Regret

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Abstract

Risk aversion, aversion to ambiguity, and regret in explaining behavior are largely regarded as unrelated traits and meant to capture features of individual preferences towards different dimensions of the uncertainty that people face. Using information on a large sample of individual investors, we find that these attitudes tend to be correlated: individuals who dislike risk also dislike ambiguity and are more prone to regret. We argue that what links these traits is the way people handle decisions, whether they rely mostly on intuition or reasoning. Intuitive thinkers are less risk averse, less worried by ambiguity and less regretful about loss than people whose decisions are based on effortful reasoning. But we also find that individual characteristics, such as gender, age, education and, most importantly, wealth, influence each of these attitudes. While the wealthy are less risk averse, they have a greater dislike for ambiguity. This interpretation is corroborated with preliminary results from a laboratory experiment in which aversion to risk and ambiguity were elicited in an incentive-compatible manner and participants' decision styles (intuitive vs. deliberative) were self-reported.

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Key words; Risk aversion, ambiguity aversion, regret, intuitive thinking