

Decision Processes Colloquia

Monday, October 13, 2014

Where: 265 JMHH

When: 12:00 – 1:15 pm

Craig Fox

Ho-Su Wu Term Chair in Management, Anderson School of Management, UCLA

Two Faces of Subjective Uncertainty

ABSTRACT: In my talk I will argue that people carry with them dual intuitions concerning the nature of uncertainty that have a critical impact on their judgments and choices. In some cases people attribute uncertainty to deficiencies in their knowledge, information, and/or mental model of relevant events (knowable or “epistemic” uncertainty); in other cases people attribute uncertainty to causal systems in the world that exhibit stochastic properties (random or “aleatory” uncertainty). I will review clues for this distinction from prior literature and then present more direct evidence from a series of novel empirical studies. First, I will show that epistemic (knowable) uncertainty is marked in natural language by statements such as “I am 80% sure that...” or “I am reasonably confident that...” and aleatory (random) uncertainty is marked by statements such as “I think there is an 80% chance that...” or “I believe there is a high probability that...”. Second, I will show that people can reliably distinguish epistemic from aleatory uncertainty in their rating of events, and that these ratings predict evaluations of whether people who make correct/incorrect predictions are deserving of credit/blame and/or are seen as lucky/unlucky. I will also show that people sometimes make self-serving attributions concerning the nature of uncertainty, and explore the role that such attributions play in hindsight bias and hot hand beliefs. Third, I’ll show that people tend to make more extreme probability judgments, holding evidence strength constant, for events that are deemed more epistemic (knowable) or less aleatory (random). Finally, I’ll show that investing behaviors (time horizon, diversification, advice-seeking) are associated with individual differences in ratings of market uncertainty. I’ll conclude with a brief discussion of further implications and directions for future research.