

MARKETING COLLOQUIA

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IS BROAD BRACKETING ALWAYS BETTER? HOW OUTCOME AGGREGATION LEADS TO MORE CONSISTENT RISK PREFERENCES

ABSTRACT: In this paper, we extend the work on myopic loss aversion by examining how broader bracketing (via outcome aggregation) influences not only positive expected value gambles, but also negative expected value and pure-loss gambles. Better understanding how choice bracketing can affect risky choice has important implications for products that are inherently time-sensitive and entail varying levels of risk, including retirement accounts, portfolio allocations, insurance purchases, and preferences for lotteries. We show that broader choice brackets lead to more consistent risk preferences across all risk types, suggesting that outcome aggregation can help individuals make better choices over risks more generally. We also determine the mechanism behind the bracketing effects. Specifically, we propose three possible mechanisms for the bracketing effects we observe: (1) changing the decision weights placed on losses (loss aversion), (2) cognitive constraints related to the construction of probability distributions, and (3) changes in perceived risk. Better understanding the psychological process behind bracketing effects can help in designing interventions to improve decisions over risk.