

Decision Processes Colloquia

Monday, March 12, 2018

Where: 340 JMHH

When: 12:00 – 1:20 pm

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Timid Choices and Bold Forecasts under Epistemic versus Aleatory Uncertainty

ABSTRACT:

People hold dual intuitions about the nature of uncertainty. In some cases people view uncertainty as indexing subjective degrees of belief over relevant events that are in principle knowable (epistemic uncertainty); in other cases people view uncertainty as indexing the propensity of inherently stochastic events (aleatory uncertainty). In this talk I present research on how the psychological distinction between epistemic and aleatory uncertainty affects judgment and choice. First, I show that ambiguity aversion is exacerbated when uncertainty is seen as more knowable (epistemic) and mitigated when seen as more random (aleatory). These results shed light on the psychological underpinnings of ambiguity aversion, and violate SEU and models of ambiguity aversion as aversion to compound lotteries. Second, I show individuals provide more extreme probability judgments for events viewed as more knowable (epistemic) and more regressive judgments for events viewed as more random (aleatory). These results shed light on how people formulate judgments under different sources of uncertainty, with direct and testable implications for judgment accuracy and overconfidence.