Affect, Empathy and Predictions of Others’ Risk Tolerance

David Faro, University of Chicago
Yuval Rottenstreich, Duke University

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Affect, Empathy and Predictions of Others’ Risk Tolerance

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People frequently have to predict the risk tolerance of others. For example, a marketer of investment services might be interested in how certain investors would react to the additional risk of stocks as compared to bonds; the executives at a biotechnology firm might attempt to understand whether doctors would prescribe a novel, risky, but potentially highly effective treatment over a standard, safe, but less effective treatment.

In this research we examine people’s accuracy in predicting the risk tolerance of persons with whom they are not familiar. In three studies, we contrast (i) risky choices made for the self with (ii) predictions of others’ risky choices. Risky choices made for the self reveal how risk tolerant people are; predictions of others’ risky choices reveal how risk tolerant people believe others are. In our studies, we draw both of these groups from the same population and compare their responses to assess the accuracy of perceptions of others’ risk tolerance and to establish the form of any inaccuracies.

We draw on the research on an affective interpretation for the observed pattern of overweighting and underweighting of probabilities (Rottenstreich and Hsee, 2001). This research suggests that even a tiny probability of obtaining a positive outcome might generate a great deal of excitement, hope and similar emotional reactions that seem to go beyond the mere numerical difference between a zero probability and a just slightly higher probability. Likewise, even a tiny probability of not obtaining a positive outcome might generate a great deal of anxiety, stress and similar emotional reactions that seem to go beyond the mere numerical difference between a probability of one and a just slightly lower probability. As a result, when incorporating likelihood into their decisions people may in essence be “unduly” over-impressed with small probability outcomes and “unduly” under-impressed with large probability outcomes. But research on empathy gaps (Loewenstein 1996; Van Boven, Dunning and Loewenstein 2000; Loewenstein, Weber, Hsee and Welch 2001) suggests that although people’s reactions to risk and uncertainty may in part reflect such affective reactions, they may not appreciate that other people have strong affective reactions. As a result, people might predict that others’ choices will reveal relatively little overweighting and relatively little underweighting, even though their own choices will reveal such patterns.

Study 1 tested this prediction in the domain of positive outcomes. Participants were asked to make a risky choice involving either a small or large probability to win a large sum of money in a marketing promotion, either for themselves or for a random student. Participants were then also asked to complete an empathy scale (Davis, 1983). In the domain of positive outcomes, overweighting of small probabilities corresponds to more risk tolerance and underweighting of large probabilities corresponds to less risk tolerance. Inline with our predictions, we find that people predict others to be less risk tolerant than themselves and actual in small probability but more risk tolerant than themselves in large probability. Furthermore, in line with the affect/empathy gap explanation for this pattern, we find that participants with high empathy scores show significantly smaller degree of these mispredictions.

Study 2 extends this pattern to the domain of negative outcomes. In this domain, overweighting of small probabilities corresponds to more risk tolerance, the reverse of the pattern in the domain of positive outcomes. Inline with our prediction, we find that participants predict others to be more risk tolerant than themselves and actual in small probabilities but less risk tolerant than themselves and actual in large probabilities.

The pattern of self/other differences in risk tolerance established in studies 1 and 2, where the direction of the mis-prediction depends on the level of probability and valence of outcomes, qualifies Hsee and Weber’s (1997) suggestion that people always perceive other as more risk tolerant than themselves, tested at a mid-level probability. Study 3 integrates our findings with those of Hsee & Weber by testing for self/other differences in risk tolerance across small, mid-level and large probabilities. In addition, this study manipulates empathy by making the target of the prediction a close-friend, someone that participants are more likely to empathize with. We replicate the pattern found in studies 1 and 2 whereby the direction of the mis-prediction depends on the level of probability and also replicate the Hsee & Weber results in mid-level probability. In further support of the notion that an empathy gap drives our results, we find that a manipulation of empathy eliminates self/other differences in risk tolerance.

We conclude with a discussion of our findings with respect to self-positivity in judgment of likelihood. Typically, people perceive good outcome as more likely and bad outcomes as less likely for themselves than for others (Weinstein, 1980; Taylor & Brown, 1988). Self-positivity concerns perceptions of the likelihood of an event, whereas our findings concern the weighting, the impact, of likelihood on decision making. Critically, for small likelihood negative outcomes (e.g., contracting AIDS), self-positivity and the phenomenon we examine work in opposite directions.

REFERENCES: