Feeling, Thinking, and Differential Decision Making Under Risk

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This research explored more closely why some people fail to conform to prospect theory by linking modern decision making ideas with the concepts of decision framing and individual differences. Study 1 demonstrated individual differences regarding the use of both affect and cognition in the risky decision-making process. High affect individuals avoided risk contrary to prospect theory predictions. Study 2 showed that high affect decision makers negatively anticipate risk consequences and are more likely to anticipate regret in the risky decision making process. Future studies should explore more deeply the influence of regret on differential information processing in risky decision making.

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EXTENDED ABSTRACT

Prospect theory is one of the most influential theories that deal with how people make decisions under risk and uncertainty. A key tenet of prospect theory is that the same person might be more risk averse in some contexts than in others. The original proponents of prospect theory acknowledged that there were still unexplained inconsistencies in their own observations of decision making that need to be addressed. To date, the reasons for nonconformity have never been thoroughly examined. The research question this study explored involves whether individual differences in preferences for using affective or cognitive decision making processes might systematically lead some people to exhibit differential decision making behavior under risk than what would be predicted by prospect theory.

Modern decision theory formally acknowledges the importance and centrality of affect in decision making. There is abundant evidence that affect plays a primary role in decision making because affective information includes information about the subjective value of the environmental cues being responded to in the decision process. More recent theories demonstrate both the reality of the value of affect in the decision making process and the potential for integration of affective and cognitive information in decision making. The theory of affect-as-information plausibly asserts that emotions are not merely byproducts of after-effects of a decision, but that emotional content deemed relevant to a decision is used in real-time during the decision making process. Furthermore, the risk-as-feelings hypothesis, in conjunction with theories of the affect heuristic in risky decision making, assert that affective and cognitive decision making systems are separate but potentially integrated systems. When the two systems diverge, however, it is actually the affective system that most prominently drives the decision making process.

The degree to which affect is utilized as information translates into meaningful difference in judgment and behavior. Based on the call to study individual difference phenomena in specific domains and in the context of theoretical frameworks, the present research builds on the affect-as-information and the risk-as-feelings frameworks to examine more closely differential decision making behavior under risk that is not accounted for by prospect theory. Specifically, this research categorizes people according to whether their decisions tend to involve a lot of thought (high cognition), a lot of feeling (high affect) or both (high cognition/affect) in the context of decision making under risk. This research sought to establish that such differential decision making tendencies are meaningful and that they influence the underlying mechanisms involved in making risky decisions.

The first study explored the extent to which information processing tendencies might influence differential decision making behavior within the original prospect theory risky decision making contexts. There is evidence that high affect/high cognition people seem to be amenable to making risky choices. Also, people who are high in affect but low in cognition might be most likely to succumb too heavily to highly aversive emotional influences in a risky decision context and would seek the least risky option, regardless of whether the decision is framed as a gain or a loss. Using an individual difference measure derived from the Need for Cognition scale and an internally developed scale measuring the tendency to use affect as information, participants were categorized into four information processing groups based on median splits in the two scales. Next, participants examined four risky decision scenarios, two framed as a potential loss and two framed as a potential gain, taken from the work of Kahneman and Tversky (1982) and Tversky and Kahneman (1981). Choice probabilities were such that prospect theory predicted the risky choice in all four scenarios. Results showed that high affect/high cognition took significant risk when the decision was framed as a potential loss of $750, whereas high affect only subjects avoided risk when the decision was framed as a potential $240 gain. Looking at high affect and low affect participants only, those high in affect were considerably less likely to take a risk even when expected to do so by prospect theory.

The second study explored more directly the extent to which people with different information processing tendencies anticipate negative consequences associated with risk in everyday situations. This study also examined differential anticipation of well-documented psychological factors, specifically regret, inherent in making decisions under risk. Participants were categorized into information processing groups as in study 1. Next, participants identified three common decisions they make every day that contains an element of risk and they identified the risky element. These answers will be used in future studies to create more content-appropriate decision tasks for studying college students. Participants then rated on a scale from 1 to 7 the expected severity of the consequences of the risky outcome if it were to happen. Finally, participants rated from 1 to 7 the extent to which they anticipated feeling regret if the risky outcome were to happen. Results showed that people high in affective processing and low in cognitive processing were much more likely to rate the consequences of the risky outcome as severe, and these same people were much more likely to anticipate feeling regret if the risky outcome were to happen.

In summary, this research showed that differential tendencies in affective and cognitive information processing provided some explanation as to why some people fail to conform to prospect theory under some decision contexts. This research also shed some light on the differential influence that key psychological mechanisms involved in risky decision making have on people who process information in different ways. Regret as a component of decision making under risk was originally established as a justification for prospect theory’s predictions that people do not always make the rational choice. Regret is a complex emotion with a cognitive component consisting of counterfactual thinking and a particularly aversive emotional component centered on self-accountability. Future studies should probe more deeply into the differential effects that negative anticipation of the consequences of risk and the anticipation of regret had on decision making in relation to information processing tendencies.

REFERENCES


