

## Deliberate Violations of Dominance by Economists in Normative Choice due to Secondary Satisfaction — Attractions to Chance (Utility of Gambling)

Presented by

**Dr Robin Pope**

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Standard economic theory assumes that a rational chooser obeys the dominance principle and so selects the certain option if the alternative risky option cannot give a better outcome and might give a worse outcome. This paper shows that this seemingly commonsense choice of the (stochastically) dominant certain option unintendedly excludes risk effects. It tests the normative appeal of the dominance principle in a hypothetical agency decision situation concerning juvenile mental health and preservation of communal and private property. Over 50% of academics in economics and in other decision sciences chose to violate the dominance for the sake of risk effects, ie their principals' secondary satisfactions (utility of gambling). There was not a single participant whose answers unambiguously supported the view that people should always obey the dominance principle. The findings suggest that focussing biases underlie (i) the exclusion of secondary satisfactions from decision models and (ii) the presumption that violating the dominance principle is irrational. The findings have implications in health economics (eg the health impacts of worry, hope, challenge and the impact of tests to determine likelihood of contracting diseases in the future), employment contracts, financial markets, education and deterrence of juvenile delinquency, sports and entertainment.

### Presenter

Dr Robin Pope is an Australian citizen located at Bonn University, Her new risk/uncertainty framework, yields SKAT, the Stages of Knowledge Ahead Theory of decision making on which a book has recently been published by Springer, and that she has used to examine insurance, exchange rate and mental health effects of risk. SKAT identifies for people and organisations the costs and benefits of going through a pre-outcome period, that is a time *before* the risk is resolved. Costs of going through this pre-outcome period include emotional ones (eg anxiety), and financial ones (eg higher interest charges on debts given the increased risks being borne by lenders, and the reductions in world trade and investment due to exchange rate and debtor repayment risks). Benefits of going through this pre-outcome period include emotional ones (eg pleasurable thrills) and bodily ones (eg growth in those sections of the brain used in analysis and decision making). This entire class of costs and benefits is excluded under the standard medical model and also under economists' standard risk model, expected utility theory, which makes that theory elegantly simple, but too simple to be rational, and dangerous to use in our personal and corporate decision making.