"Simplicity Equivalents"

abstract:
We provide evidence that the signature empirical patterns of prospect theory, are not special phenomena of risk. They also arise (and often with equal strength) when subjects evaluate deterministic monetary payoffs that have been disaggregated to resemble lotteries. Thus, we find e.g. apparent probability weighting in settings without probabilities and loss aversion in settings without loss.  Across subjects, the appearance of these anomalies in deterministic evaluations strongly predicts their appearance in true lotteries. These findings suggest that much of the behavior described by prospect theory is driven by the complexity of evaluating lotteries, rather than by risk or risk preferences.