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Effects of learning and feedback on risk preferences

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Abstract

Decades of research has demonstrated that people do not make economically rational decisions when risk is involved. While research has focused on how and why people's decisions differ from economic rationality, an unanswered question is whether people can learn to improve their risky decision making in response to feedback on similar past decisions. In an experiment, we test whether people's risk preferences change after they received either natural (a single outcome), or idealised (the average outcome) feedback about similar decisions in the past. Crucially, unlike studies of decisions from experience, they received feedback on several different decisions from description, rather than repeated feedback about a single choice. Compared to a control, who received no feedback, both forms of feedback led to an increase in choice of the higher Expected Value gamble. Modelling suggests, for natural feedback, this may be due to changes in how they treat probability information.