

Risk aversion and ambiguity aversion have been widely observed in individual choices. Ambiguity aversion may result because of one's dislike for lack of information or knowledge. Using scenarios that are typical in decision analysis, we investigate risk and ambiguity aversion for dyads (groups of size two). We limit our experiment study to dyads to reduce group dynamics effects and risk sharing complexities. We examine risky and cautious shifts of dyads.

In our experiment the subjects were first asked to specify individually their willingness-to-pay for six gambles involving risk and ambiguity. They were then paired at random into dyads, and were asked to specify their willingness-to-pay amount for the same gambles. To minimize risk sharing complexities we imposed the condition that the dyad's willingness-to-pay amount should be shared equally by the two individuals. Of the six gambles in our experiment, one involved no ambiguity and the remaining five involved ambiguity with different degrees of familiarity. We found that dyads exhibit both risk aversion as well as ambiguity aversion. Further, dyads' willingness-to-pay amounts are sometimes more and sometimes less ambiguity -averse than the average of the individuals making up the dyad. The majority of the dyads exhibited a cautious shift, stating a smaller willingness-to-pay than the average of the individual willingness-to-pay. Our study thus confirms the persistence of ambiguity aversion and the predominance of cautious shift for dyads. Future studies could consider larger group sizes, unequal sharing of dyads' outcomes and other types of underlying gambles.