MBS 02-12

Empirical Evaluation of Theories for Buying and Selling Prices of Binary Gamgles

Michael M. Birnbaum, Sherry Yeary, R. Duncan Luce, and Li Zhao

---

Judges estimated the values of gambles from viewpoints of buyers and sellers. Consistent with previous results, selling prices exceed buying prices by a substantial amounts, and these two judgments are not monotonically related to each other. Two models based on loss aversion combined with cumulative prospect theory (CPT) do not give accurate accounts of the data. In particular, judgments violate complementary symmetry, which is impiled by the best-fitting of the CPT models. Models based on the theory of joint receipts by Luce fit better than those based on CPT and loss aversion, but the best-fitting of these does not give an adequate account of judgments involving a lowest consequence that might be zero or positive. Two configural weight models give better fits to the data using the same number or fewer parameters estimated from the data. Some aspects of the data favor one and some favor the other of these configural models.

Keywords: buying price, choice, configural weighting, contingent valuation, cumulative prospect theory, endowment effect, expected utility, gambles, judge's point of view, loss aversion, preference reversals, rank and sign-dependent utility theory, selling price, viewpoint effects, willingness to accept (WTA), willingness to pay (WTP).