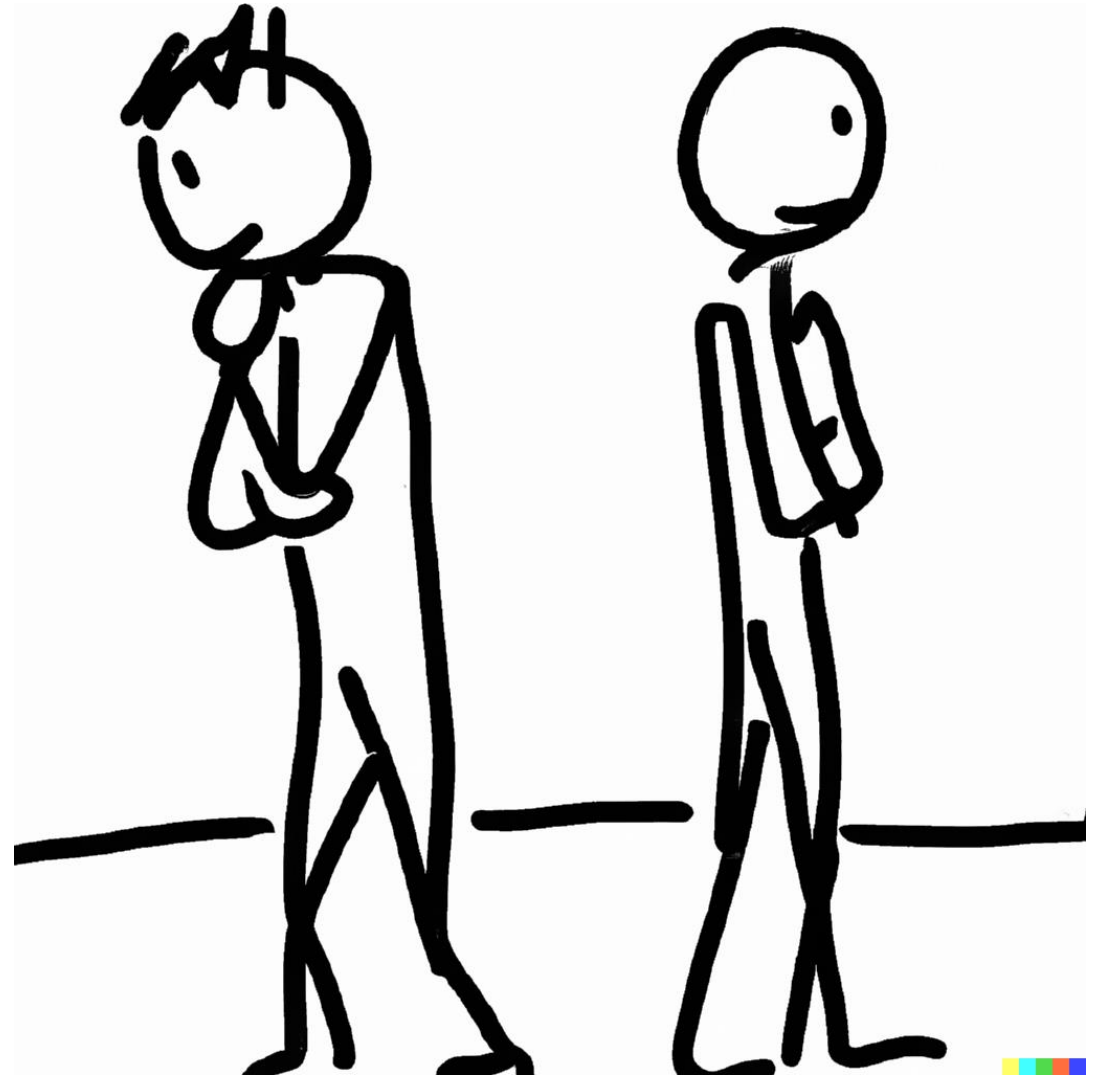# Framing and reference points

Notes on Behavioural Economics

Jason Collins

Framing

Kahneman and Tversky (1984) reported the following experiment.

A group of experimental participants were shown the following:

Imagine that the U.S. is preparing for the outbreak of an unusual Asian disease, which is expected to kill 600 people. Two alternative programs to combat the disease have been proposed. Assume that the exact scientific estimates of the consequences of the programs are as follows:

If Program A is adopted, 200 people will be saved.

If Program B is adopted, there is a one-third probability that 600 people will be saved and a two-thirds probability that no people will be saved.

Which of the two programs would you favour?

72% of participants chose option A.

Framing

Another group of experimental participants were shown the following:

Imagine that the U.S. is preparing for the outbreak of an unusual Asian disease, which is expected to kill 600 people. Two alternative programs to combat the disease have been proposed. Assume that the exact scientific estimates of the consequences of the programs are as follows:

If Program C is adopted, 400 people will die.

If Program D is adopted, there is a one-third probability that nobody will die and a two-thirds probability that 600 people will die.

Which of the two programs would you favour?

22% of participants chose option C.

Reference points

Consider the following two scenarios:

- You have not checked your share portfolio in a while. You expect it is worth around $40,000. Today when you check, it is worth $30,000. Do you feel rich or poor?

- You have not checked your share portfolio in a while. You expect it is worth around $20,000. Today when you check, it is worth $30,000. Do you feel rich or poor?

Under expected utility theory, those two scenarios should feel the same as you have $U($30,000)$ in both cases.