

Referee Report: Myopia and Randomness in Choice (EL 52255)

This note makes some general claims that some literature on choice over risky prospects should pay more attention to stochastic issues. By “stochastic issues” the reference is to behavioral randomness, not the statistical issues that arise when estimating risk preferences, although there are implications of the former for the latter.

The note has a horrible mis-mash of motivations. The abstract has one, the first lines of the paper has another (repeating the judge variability example that Kahneman and Sunstein repeat in their interviews on their *Noise* book), then we learn again about Samuelson’s lunch buddy and aggregated choices versus one shot choices, and then there are several more. All of this is just superficial, and there is no space in a short note to connect all of these, if indeed they could be.

The core of the note is a revision of some experiments by Gneezy and Potters *QJE* 1997, and the claim that one does not analyze these data correctly without allowing for some random choice modeling. That is likely true, but is independent of the main flaw with that design. The main flaw is that it assumes constant relative risk aversion: if one allows varying relative risk aversion, well within the orbit of standard EUT, the results are easy to explain since one set of choices involves stakes that are a multiple of the other. This is well-known, and explained in detail in Appendix E of Harrison and Ruststrom, “Risk Aversion in the Laboratory,” in Cox and Harrison (eds.), *Risk Aversion in Experiments* (Bingley, UK: Emerald, Research in Experimental Economics, Volume 12, 2008). In the second paragraph of page 3 the author explicitly makes the same assumption, a “restrictive” one if the claim is to be testing EUT in any interesting way.

All of the discussion about behavioral errors is well-known as well, but the only papers cited are ones from the last few years. I encourage a review of the survey by Wilcox, “Stochastic Models for Binary Discrete Choice Under Risk: A Critical Primer and Econometric Comparison,” in Cox and Harrison (eds.), *Risk Aversion in Experiments* (Bingley, UK: Emerald, Research in Experimental Economics, Volume 12, 2008).

The note is not up to the standards for *Economics Letters*, and should be rejected.