Deal or No Deal? Game Show used to study Risk Aversion Behavior

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(PhysOrg.com) -- A new study in the International Review of Finance, published by Wiley-Blackwell, used data from the popular television game show, ‘Deal or No Deal?’, to explore risk aversion and economic decision-making behaviors of individuals in a high stake setting.

The setting of the popular television game show provides an ideal condition for studying a range of issues relating to risk aversion. It begins with 26 suitcases of prizes ranging from 50 cents to US$200,000, with most of the prize money amounting to US$10,000 and below. The contestants are asked to select one suitcase to be set aside, and are then asked to continue eliminating the rest of the suitcases by choosing between the offers made the bank or staking their chances on an unknown amount in any particular suitcase.

The study entitled, “Deal or no Deal, That is the Question: The Impact of Increasing Stakes and Framing Effects on Decision-Making under Risk” examines the statistics from 102 episodes of the Australian version of the game show.

Findings showed that while risk aversion increased with the stakes, people are generally willing to bear risks despite very high stakes. Researchers also found that males are more willing to take risk and are less likely to be swayed by a positive counter-offer. While gender and age are significant determinants of risk aversion, wealth is not a factor when establishing a person’s risk behavior.

Co-author Professor Robert Faff from the Department of Accounting and Finance, Monash University, Melbourne said, “The analysis of decisions under uncertainty is fundamental to modern economics and finance. By studying contestant choices in ‘Deal or No Deal?’, we were able to explore risk aversion issues in the context of both very high and wide ranging pay-offs. It also allowed us to answer questions including heterogeneity and how this varies with demographic characteristics such as age, wealth and gender.”

More information: This article is published in the International Review of Finance (Vol. 9, Issue 1-2, pp. 27-50). http://www3.interscience.wiley.com/122436508/abstract

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