Behavioral Decision Making Group Colloquium Series

is pleased to present

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Risk Aversion, Hedging, and Construct (In)validity

ABSTRACT

Risk preferences imputed from the valuation of hedges (assets that pay off in state spaces different from those of risky assets currently held) are often negatively correlated with risk preferences as imputed from the valuation of the risky assets themselves. Though this result can be understood in psychological terms (as an unwillingness to pay more than the expected value of an asset construed as an investment), it nevertheless poses a fundamental challenge to the validity of risk preferences as a psychological construct, since the valuations of bets and hedges are, logically, assessing the same thing – attitudes towards variance in outcomes among states. As Cronbach and Meehl noted long ago, the resolution of such inconsistencies is not straightforward, as we might seek to redefine the construct, or reject one or more of the ways we measure it – either of which raises questions about the bases for accepting or rejecting a construct or any putative operationalization of it.

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