# Reference Dependence and Aversion to Losses in Probability: Theory and Experiment of Ambiguity Attitudes

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ABSTRACT of presentation held on **16 January 2014, room C83, 12.30 – 13.30 hrs., Leeuwenborch**, Wageningen

In this paper we extend the idea of reference dependence and loss aversion from payoffs to probabilities. We tested these two hypotheses in two experiments and found supporting evidence for them. To demonstrate one potential implication we developed a theoretical model using these two hypotheses as main assumptions. Our model reconciles two interesting puzzles: (1) the finding that ambiguity aversion is more pronounced when an ambiguous asset is evaluated alongside a risky asset than in isolation; (2) individuals are ambiguity averse with lotteries of large ambiguity-neutral winning probabilities but might become ambiguity seeking with lotteries of small ambiguity-neutral winning probabilities.

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