Report on:

 Estimating Risk Attitudes in Conventional and Artefactual Lab Experiments:
The importance of the underlying assumptions

Relevance:

In this paper the authors want to show that there is a stark difference in risk attitudes between student subject pools (which are usually used in laboratory experiments in experimental economics) and the general population. Their main claim seems to be that they have found that students are generally risk averse in contrast to the general population which exhibits risk loving behavior under CRRA assumptions.

This result would be of relevance to experimental economics as it would cast doubt on the external validity of a large number of experiments.

Criticism:

a) It is unclear how the general population was recruited. In the paper the authors write that recruiting was done by a professional company, however with non-student populations there is usually a problem of self-selection as the general working population with a regular 9-to-5 job is usually not able/willing to attend experiments due to time constraints. This usually results in non-student subject pools mostly consisting of the unemployed. So you run the risk of not comparing students to the general population, but rather another specific subgroup.

b) The authors use only the Holt-Laury task (in 3 variations). While the Holt-Laury task is well accepted in experimental economics and can be considered the standard, it would seem prudent to use other risk measures as well in a paper solely concerned with differences in risk attitudes (i. e. a general risk aversion question, other tasks that keep the probability constant while changing payoffs).

c) The sample size is very small for no readily apparent reason. With only 34 students and 23 people from the general population, the data is quite susceptible to outliers.

d) I cannot find any mention in the text how large the difference actually is and how I am supposed to interpret the regression results. All the authors say is that the difference is significant under CRRA, but this tells me nothing about the magnitude. Is the general population for example twice as risk averse, which would have large implications, or is it a more modest difference?

Major criticisms:

a) I am very unhappy with the incentive scheme. The authors offered show-up fees, which is already problematic as it can be seen as giving the subjects "gamble money", which can affect their risk preferences. Then they made matters worse by differentiating the show-up fees between students and the general population, giving the general population more gamble money. Additionally they don't even mention the size of the difference. (They justify it by mentioning that the recruiting practices made the higher show up-fee for the general population necessary, however that does not explain at all why they could not give the higher show-up fee to students as well.)

b) I have major problems with their regression model. First they use a dummy variable for above average income/below average income. This seems to be self-reported, which is already problematic and it lumps the extremely poor together with people that are just below the average. It seems reasonable to me that a subject's general wealth level should be a major influencing factor in

a subject's decision to gamble with the money, so this needs to be more detailed.

Secondly adding the total fee variable to the regression does not make any sense to me. It seems to be the final payoff that the subjects received (why else does it have standard errors?). The authors try to use it to control for their different show-up fees, however the total fee variable is influenced by the actual outcome of the lottery and not only by the conditions at the time subjects made their decision.

Third it is unclear whether the regression captures all risk-influencing attitudes. For example Falk et al (2010) report that tallness significantly influences risk attitudes. (http://ftp.iza.org/dp1730.pdf).

Conclusion: The paper could make a contribution to the field of experimental economics. However the flaws in the experimental design and the unconvincing regression analysis cast doubt on the general validity of the results.