

Referee Report on

“A Review of the Certainty Effect and Influence of Information Processing”

The paper provides a survey of experimental literature on certainty effect and on the empirical value of prospect theory. The main claim is that prospect theory is fit for explaining and predicting individual choices in conditions of risk if applied to single shot decisions in which learning processes are not allowed. In contrast, when choices are repeated over time, the possibility of regaining eventual losses make expected utility theory more appropriate for prediction purposes.

The authors also argue that fuzzy trace theory, a psychological version of the dual process theory, can account for this difference. Being information processed not serially but in parallel by two independent cognitive processes, decisions would be different in front of repeated or single-shot decisions.

The paper is divided in four parts. The first part offers an extended overview of prospect theory and certainty effect. The second part illustrates fuzzy trace theory. The third part discusses the implications of the concept of fuzzy trace for the explanation of certainty effect.

I find the paper well structured and thought-provoking. The ideas motivating the paper are interesting and present an opportunity to re-think experimental and behavioral evidence at the light of cognitive approaches. However, I would like to see some minor changes in the general structure of the paper.

The main weakness of the paper is related to the conclusions, which lack a more explicit discussion of the authors' viewpoint on the empirical implications of their interpretation. There are only scattered statements on this specific issue. The causal chain going from the existence of fuzzy trace theory and dual system to certainty effect should be complemented with a discussion of the practical implications of this possibility. This point is particularly relevant in the context of the influence of individual characteristics such as age and gender conducted at page 34.

One of the main assumptions of fuzzy trace theory is that memory recollection process is not unitary, but it is rather a dual and parallel process. This effect is commonly known in literature as hindsight bias, according to which current recollections of past judgments tend to be biased by what actually happened since then. This effect should be assessed more extensively in the final discussion.

Another flaw of the paper is that the survey of the first part on prospect theory and certainty effect is too lengthy and speculative. Although empirical evidence is well presented and remains interesting the readability of the paper would be increased significantly by shortening it. Especially the part devoted to Allais paradox and prospect theory could be significantly streamlined

To summarize, the paper appears to have been carefully written and covers a great deal of ground. Yet, it remains on need of minor revisions, namely the final discussion should be revised in order to make clearer the empirical consequences of the study and the initial part of the survey should be more concise.

Thus, the current version deserves to be published after minor revisions in the special issue "Economics, Psychology and Choice Theory" of the journal "Economics".