

Ambiguity aversion and framing effects in the insurance demand of ambiguous risks*

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Abstract

Almost all studies implicitly suppose that the ambiguity is concentrated on a no-loss state, even if individuals suffer a loss. Designing for no-loss and loss treatments, we examine the framing effect in the situations with ambiguous risks using a conventional lab experiment. We also create three treatment groups: NA (a treatment group with known probabilities of an unlucky event occurring) and LA and HA (treatments groups with unknown probabilities which differ in the degrees of ambiguity). When participants were offered the insurance protection against a potential loss, the experimental results confirm that there are framing effects which are quantitatively and qualitatively different in no-loss and loss treatments.

Keywords: Ambiguity aversion; Loss aversion; Reference point;

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