

ALFRED-
WEBER-
INSTITUT



Newsletter 8/2010

ALFRED-WEBER-INSTITUT FÜR WIRTSCHAFTSWISSENSCHAFTEN
BERGHEIMER STR. 58, 69115 HEIDELBERG, TEL. 06221/54-2941, FAX: 06221/54-3592
REDAKTION: FREYA SCHADT, EMAIL: NEWSLETTER@AWI.UNI-HEIDELBERG.DE

AWI This Week

Monday, 3. 5. 10

Departmental Seminar

17.15-18.45

Nick Netzer, University of Zurich

AWI 00.010

"Probability Weighting as Evolutionary Second-best"

Departmental Seminar

Nick Netzer

"Probability Weighting as Evolutionary Second-best"*

The economic concept of the second-best involves the idea that multiple simultaneous deviations from a hypothetical first-best optimum may be optimal once the first-best itself can no longer be achieved, since one distortion may partially compensate for another. Within an evolutionary framework, we translate this concept to behavior under uncertainty. We argue that the two main components of prospect theory, the value function and the probability weighting function, are complements in the second-best sense. Previous work has shown that an adaptive S-shaped value function may be evolutionary optimal if decision-making is subject to cognitive or perceptive constraints. We show that distortions in the way probabilities are perceived can further enhance fitness. The second-best optimum involves over-weighting of small and underweighting of large probabilities. Behavior as described by prospect theory might therefore be evolution's second-best solution to the fitness maximization problem. Our model makes empirically testable predictions about the relation between individuals' value and probability weighting functions."

*with Florian Herold

Jour Fixe

The AWI JOUR FIXE takes place at the Lounge on a weekly basis on Mondays from 16:30 till 17:15 (i.e., just before the departmental seminar). There you will have the opportunity to meet the speaker, enjoy a coffee, and exchange news and discuss research with other members of the AWI.

Talks and Research Visits

Christoph Brunner presented the paper "Wise Crowds or Wise Minorities" at the MPI in Jena, April 21.

Andrea Leuermann presented her paper „Intergenerational Transmission of Risk Attitudes - A Revealed Preference Approach“ (joint with Sarah Necker) at the Thurgau Experimental Economics Meeting, Kreuzlingen, April 22.

Jürgen Eichberger gave a talk on „Information, Learning and Ambiguity“ at the ESI Spring Workshop organized by the MPI of Economics in Jena on April 18-22.

Jean-Philippe Lefort presented his paper on "A Dynamic Ellsberg Urn Experiment" (joint with Adam Dominiak and Peter Dürsch) at the ESI Spring Workshop in Jena on April 18-22.

New Publications

Christian Conrad, Menelaos Karanasos, and Ning Zeng (2010): "Multivariate fractionally integrated APARCH modelling of stock market volatility: a multi-country study." Journal of Empirical Finance, forthcoming.

Hartmut Sangmeister/Alexa Schönstedt: "Entwicklungszusammenarbeit im 21. Jahrhundert. Ein Überblick.", Baden-Baden: Nomos Verlag 2010.

Miscellaneous

Im Rahmen der Vorlesung "Entwicklungspolitik III" von Prof. Sangmeister wird Prof. Dr. Cai Fang, Chinese Academy of Social Sciences (CASS), Direktor des Institute of Population and Labour Economics, Peking, einen Vortrag über "Choosing a Growth Pattern that Suits China´s Present Development Stage" halten. Zeit: Donnerstag, 29.04.2010, 18:00-19:30 Uhr; Ort: Heuscheuer I. Die Veranstaltung ist Teil der China-Wochen der Universität Heidelberg.

**Editorial deadline for issue 9/2010 of the newsletter:
Wednesday, May 5, 2010, 12 o'clock
newsletter@awi.uni-heidelberg.de**

If you would like to receive the newsletter by email,
please contact the address above.