THE EVALUATION OF INFORMATION UNDER RISK AND AMBIGUITY

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In many real world decision problems the set of opportunities the decision maker has, contains gathering further information which reduces the uncertainty involved. As gathering information may involve costs the determination of the optimal level of information is an important decision problem.

In our talk we will present the results of an experimental study on the willingness to pay for information that resolves uncertainty. In the experiment 157 students were asked to give information values for two-state-lottery decision problems with lotteries defined on three different risky or ambiguous events.

These experimental results will be contrasted with theoretical values of information derived from the Subjective Expected Utility Model and the Choquet Expected Utility Model. We find that neither model describes the observed information buying behaviour well. There are strong systematic violations of even simplest predictions.

We will conclude the talk with some comments on special features of information evaluation processes that might explain the results. We will also comment on some more general problems of determining values of information in models that allow for violations of the independence axiom like the Choquet Expected Utility Model.