

A systematic test of the Independence Axiom: Around Certainty

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Abstract

We experimentally investigate the Independence Axiom - a central tenet of the expected utility theory. In our experiment, we test this axiom on the entire probability simplex. This method allows us to simultaneously study both the certainty effect and the reverse certainty effect. A preliminary analysis suggests that the Independence Axiom is violated systematically across the entire simplex. Moreover, the nature of violations is consistent with the reverse certainty effect as opposed to the accepted experimental knowledge which suggests the prevalence of the certainty effect. Our experiment contributes to the existing literature by studying the Independence Axiom on the entire simplex and is the first one to document the prevalence of the reverse certainty effect.

Speaker Profile

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