



EUI Working Papers

ECO 2011/13

DEPARTMENT OF ECONOMICS

THE ROLE OF INTUITION AND REASONING
IN DRIVING AVERSION TO RISK AND AMBIGUITY

Jeffrey V. Butler, Luigi Guiso and Tullio Jappelli

EUROPEAN UNIVERSITY INSTITUTE, FLORENCE
DEPARTMENT OF ECONOMICS

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JEFFREY V. BUTLER,

LUIGI GUISO

AND

TULLIO JAPPELLI

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ISSN 1725-6704

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Printed in Italy
European University Institute
Badia Fiesolana
I – 50014 San Domenico di Fiesole (FI)
Italy
www.eui.eu
cadmus.eui.eu

This draft: April 4, 2011

The role of intuition and reasoning in driving aversion to risk and ambiguity

Jeffrey V. Butler

EIEF - Einaudi Institute for Economics and Finance

Luigi Guiso

European University Institute and EIEF

Tullio Jappelli

University of Naples Federico II and CSEF

Abstract

Using information on a large sample of retail investors and experimental data we find that risk aversion and risk ambiguity are correlated: individuals who dislike risk also dislike ambiguity. We show that what links these traits is the way people handle decisions. Intuitive thinkers are less averse to risk and less averse to ambiguity than individuals who base their decisions on effortful reasoning. We confirm this finding in a series of experiments. One interpretation of our results is that the high-speed of intuitive thinking puts intuitive thinkers at a comparative advantage in situations involving high risk and ambiguity, making them less averse to both. Consistent with this view we show evidence from the field and from the lab that intuitive thinkers perform better than deliberative thinkers when making decisions in highly ambiguous and risky environments. We also find that attitudes toward risk and ambiguity are related to different individual characteristics and wealth. While the wealthy are less averse to risk, they dislike ambiguity more, a finding that has implications for financial puzzles.

JEL classification: **D81; D83.**

Keywords: Risk Aversion, Risk Ambiguity, Decision Theory, Dual Systems, Intuitive Thinking.

1. Introduction

In many situations individuals take decisions with clear estimates of the probabilities associated with specific outcomes. In other situations people don't know the probabilistic structure of the events. Economists refer to the first situation as risk, and the second as ambiguity.¹ These attitudes towards risk and ambiguity are prime candidates to explain behavior in financial markets. For instance, since financial assets' returns tend to be risky and (at least at times) ambiguous, aversion to risk and to ambiguity can explain why people are reluctant to invest in stocks and therefore demand an equity premium (Epstein and Schneider, 2010).

Even though many experimental studies have shown that individuals are averse to both risk and ambiguity, the literature so far has studied these two concepts independently. In this paper we undertake a systematic study of risk and ambiguity aversion, how they correlate with observable characteristics and how they correlate with each other. To make the two concepts operational, we use measures of attitudes towards risk and ambiguity from a sample of retail investors as well as from experimental evidence. The survey data are drawn from a representative sample of Unicredit retail investors (the Unicredit Client Survey, or UCS). We exploit a section of the survey devoted explicitly to obtaining measures of attitudes towards risk and ambiguity. We find that individuals are heterogeneous along both dimensions and that attitudes towards risk and ambiguity exhibit a common pattern: those who dislike financial risk are also more likely to dislike ambiguity.

Most interestingly, we show that the attitudes toward risk and ambiguity can be traced back to the way individuals approach decisions. Research in psychology suggests that people rely on two modes of thinking when making decisions.² In the terminology of Stanovich and West (2000), the first mode of decision making (System 1) is intuitive thinking, while the second mode (System 2) is based on effortful reasoning and systematic processing of information. System 2 is calculative, analytical and controlled and involves systematic conscious

¹ Ellsberg (1961) was the first to show that individuals tend to prefer prospects whose probabilities are known over the same prospects with unknown probabilities.

² See Sloman (1996), Evans and Over (1996), Hammond (1996), Stanovich and West (2000), Gilovich et al. (2002), Kahneman (2003), Slovic (2003).

comparisons of different alternatives. While such deliberative reasoning is slow, System 1 is quick, automatic and can even be unconscious.³

In the UCS we obtain information on individuals' predispositions to rely on both decision modes. This allows us to classify respondents into three groups: those who rely mostly on intuition, those who use both intuition and reasoning and those who rely predominantly on deliberative reasoning. We find that attitudes towards risk and ambiguity vary significantly with the way individuals make decisions. The survey shows that, relative to individuals who use both modes, those who decide predominantly using intuition are less likely to be averse to risk and ambiguity. We replicate this finding in two separate experiments involving over 1300 participants from universities in Rome, using incentive compatible measures of risk and ambiguity aversion and plausible alternative measures of decision style.

One interpretation of our results is that intuitive thinkers have a comparative advantage in dealing with situations involving risk and uncertainty, as they react more promptly to the limited information available in ambiguous situations. In the last section of the paper we provide field-based and experimental evidence supporting this view. For experimental evidence, we invited a randomly chosen subset of participants in our main experiments to participate in an Iowa Card Task (described below) involving 100 sequential choices under uncertainty. We found that participants who relied more on intuition performed significantly better in the card task. For corroborating empirical evidence from the field, we follow the trading strategies of our sample of investors around the time of the 2008 stock market crash and show that investors who rely mainly on intuition were better able to time the market by exiting from stocks at a faster pace than deliberative thinkers before the stock market crashed.

Our paper has important implications for understanding financial decisions. It is well known that it is difficult to reconcile the historical level of the equity premium with the one predicted by the standard portfolio model (based on expected utility maximization) with reasonable values of risk aversion. Since ambiguity aversion commands an additional "ambiguity premium" on uncertain assets (Epstein and Schneider, 2010), the finding that many investors tend to be both risk and ambiguity averse implies that it may be possible to find

³ Recent research comparing how fraternal and paternal twins make decisions suggests that reliance on these decision modes has a genetic component and is a stable, individual, trait, see Bouchard and Hur (1998). For evidence that decision mode is stable across contexts, see Table 9 which shows that experimental participants who take longer to reach decisions involving uncertain monetary outcomes also took longer to make choices in decisions free of monetary consequences.

reasonable parameter configurations of risk and ambiguity aversion that produce enough risk intolerance to account for the historical equity premium.⁴

The remainder of the paper proceeds as follows. In Section 2 we describe closely related literature. In Section 3 we review the dual theory of decision making and how the structure of the cognitive system may affect risk and ambiguity aversion. In Section 4 we describe our two data sources, the survey data and experimental data. Section 5 presents our indicators of risk aversion, ambiguity aversion and thinking mode in the survey. Section 6 shows regressions of the effect of intuition and reasoning on these behavioral traits. Section 7 discusses the results of the experiments, confirming the relationship between decision style and risk and ambiguity aversion. Section 8 presents the results from the Iowa card task and the behavior of investors around the stock market crash. Section 9 concludes.

2. Related Literature

Our paper is related to four strands of recent literature. The first strand is an emerging literature eliciting individual risk preference parameters and characterizing their heterogeneity, either by relying on experiments, as in Holt and Laury (2002) or by using large-scale surveys, as Barsky et al. (1997), Guiso and Paiella (2008), Dohmen et al. (2011), and Donkers et. al. (2001) or large scale field experiments (e.g. Bombardini and Trebbi (2011)). Most of this literature characterizes risk aversion alone; instead, we also focus on preferences for ambiguity and on whether these traits are related.

Our work is also related to the literature that uses theory-guided laboratory experiments presenting individuals with a large number of simple portfolio choices involving risky but non-ambiguous assets and ambiguous assets with varying prices. Given a specification for preferences under ambiguity, observed choices permit the recovery of preference parameters identifying the model that best characterizes these choices, as in Bossaerts et al. (2006), Ahn et al. (2007), and Choi et al. (2007), Chakravarty and Roy (2006) and Hsu et. al. (2005). Like us, some of these papers study whether aversion to risk and to ambiguity are related; but differently from them we are also interested in understanding the *mechanism* that links these traits, and in

⁴ Gollier (2006) shows conditions under which aversion to ambiguity reinforces risk aversion in the sense that it induces investors to invest less in stocks – the risky and ambiguous asset. See also Hansen et al. (1999), Chen and Epstein (2002), Klibanoff et al. (2005), Mukerji et al. (2005), Gollier and Salanié (2006) and Epstein and Schneider (2010).

particular whether the architecture of the cognitive system plays a role in shaping attitudes towards risk and uncertainty.

The paper is also related to a number of contributions that look at the effect of cognitive ability on risk taking. These papers find that higher cognitive ability is associated with a higher propensity to take risk (Frederick, 2005; Dohmen et. al, 2010) and a lower incidence of behavioral anomalies such as aversion to small-stakes risks (Benjamin et. al. 2006). In contrast to these papers which examine how differences in ability to reason are related to risk aversion, we focus on how the decision mode (intuition or reasoning) affects individual attitudes towards risk and uncertainty.

Finally our paper is also related to a recent and burgeoning literature in neuroscience and neuroeconomics that studies how people's brains handle decisions under risk and uncertainty. In a famous contribution Bechara et al. (1997) show that individuals with normal IQ and reasoning ability, but whose capacity to feel emotions is diminished because of damage to their prefrontal cortex, cannot handle uncertainty effectively. The orbitofrontal cortex and the amygdala are the areas of the brain that are deemed to be most involved with intuitive thinking and emotions. Substantial involvement of intuitive thinking in decisions involving risk and uncertainty is also consistent with functional magnetic resonance studies showing that the orbitofrontal cortex and the amygdala are the areas of the brain that are most active when individuals face ambiguous choices (Hsu et. al.,2005; Rustichini, 2005). These findings suggest that our results may reflect a comparative advantage that intuitive thinkers have in dealing with risk and uncertainty, and that such advantage translates into greater tolerance for both. We contribute to this literature by providing new direct evidence on the comparative advantage intuition confers in situations involving uncertainty in larger and more representative samples than previous studies.

3. The dual system and risk taking

A recent strand of research in psychology argues that human cognitive architecture is based on a dual system—two ways of thinking and approaching decisions (Kahneman, 2003). The first system, which Stanovich and West (2000, 2003) term System 1, corresponds to what is commonly called intuition. System 2, on the other hand, handles effortful reasoning. Individuals who rely on effortful, deliberative, reasoning carry out systematic comparisons of relevant alternatives and assess the pros and cons of each based on available information. In contrast, when decisions are based on intuition there is no systematic comparison of alternatives: a

decision is taken at glance, by rapidly evaluating the main features of the problem at hand and achieving a conclusion (Klein, 2003).

Consequently, intuition is fast and characterized by automatic and spontaneous responses. It requires little effort and is often able to draw conclusions from little information—termed “thin slicing” in Gladwell (2005). Moreover, System 1 is emotional and highly context-dependent. On the other hand, deliberative, effortful, reasoning (System 2) is typically slow, controlled, de-contextualized and based on large information inputs. Finally, while the process of choice based on deliberative reasoning is conscious—individuals can describe why specific choices are made—intuition-based choices are often unconscious in the sense that individuals cannot provide a description of why the choice was made.

The debate surrounding the dual systems view has focused mostly on the implications of this cognitive architecture for the rationality debate (Stanovich and West, 2003) and on the consequences of intuitive thinking for individual performance (Klein, 1998; 2003). Relatively little attention has been paid to the link between the architecture of cognitive systems and attitudes towards risk and uncertainty.

However, Klein (1998; 2003) does conjecture a direct link between thinking mode and attitudes towards risk and uncertainty by observing that intuitive thinking is uniquely suited to adventurous behavior and risk taking. Based upon intensive studies of how people make decisions involving high stakes, a lot of uncertainty and severe pressure (Marine Corps generals, firefighters, Wall Street traders, intensive care units nurses, etc.) he argues that when individuals are faced with life-and-death decisions requiring a quick response in situations rife with uncertainty, reliance on System 2 would lead to systematic failure - there would simply be no time to process information, come up with a list of alternatives and pick the best one. Rather, in these situations the more individuals can rely on and exploit intuitive thinking, the quicker and more successful decisions will be.

The key point according to Klein (2003) is that intuition can handle severe uncertainty so that individuals who are better at using System 1 may also feel more comfortable dealing with uncertainty and risk (though no distinction is made between the two) and thus develop higher

tolerance for both.⁵ It is this feeling of comfort with *detection* and *learning* about risks that could make intuitive thinkers more tolerant to risk and uncertainty.

Indirect evidence that intuition may facilitate risk and ambiguity tolerance because it increases the quality of decision making under uncertainty comes from experiments run by neuroscientists using the so-called Iowa Gambling Task (IGT) introduced by Bechara et al. (1994).⁶ The IGT involves 100 sequential draws from among 4 card decks, two of which are designed to yield positive expected returns while the other two yield negative expected returns. Participants are told nothing about the decks, or even how many draws they will eventually get. Their sole instruction is to attempt to maximize earnings. Thus, the IGT represents a decision situation laden with risk and uncertainty. According to Damasio, Tranel and Damasio (1991), in such situations cognitive processes that require systematic comparisons of the pros and cons of different alternatives (i.e., System 2) may become overloaded and unable to provide an informed decision. In these cases, “somatic” markers—a set of associations stored in the brain between situations an individual has experienced or considered and the feelings and emotions this conjured - may guide the decision process.

Bechara et al. (1994; 1997) used two types of participants in the experiment: individuals with normal IQ and reasoning abilities as well as a normal capacity to feel emotions; individuals with similar IQ and reasoning ability but with inability to feel emotions due to orbitofrontal cortex dysfunction. As argued by Bechara et al. (1997) and Damasio (1996) individuals with dysfunctional orbitofrontal cortices fully retain their capabilities to perform computations, make quantitative assessments and reason logically. They found that participants with orbitofrontal cortex dysfunction continued betting on “bad” decks which yielded negative expected returns

⁵ He argues that “...one role of intuition is to alert us that something is wrong, even if we do not know what it is. If your ‘gut’ is sending out signs of fear or apprehension, you should pay more attention—your intuition is sensing the problem way before your conscious mind figures it out” (p.87).

⁶ The IGT was developed to test Damasio’s (1991) “somatic marker” hypothesis. According to the somatic markers hypothesis, the stimuli individuals are subject to in the environment induce an associated physiological emotional affective state. These associations are stored as somatic markers, arguably in the ventromedial prefrontal cortex. In future situations, these somatic-marker associations are reinstated physiologically and bias cognitive processing. In cases where complex and uncertain decisions need to be made, the somatic markers from all reward- and punishment experiences associated with the relevant decision at hand are summed to produce a net somatic state. This overall state is used to direct the selection of the appropriate action. This decision process may occur unconsciously, via the brainstem and ventral striatum, or consciously, engaging higher cortical cognitive processing. Somatic markers are proposed to direct attention away from the most disadvantageous options, simplifying the decision process. The amygdala and prefrontal cortex are essential components of this hypothesized mechanism and therefore damage to either structure will disrupt their role in mediating the development and action of somatic markers.

over all 100 draws, even though they reported being consciously aware that by so doing they were losing money. In contrast, participants with normal emotional capabilities *sampled* cards from each deck, but after about 50 choices tended to select cards predominantly from the “good” decks.⁷

This evidence suggests that high quality decision making under uncertainty requires more than deliberative (system 2) capabilities. Because of the close connection between emotional and intuitive capabilities, one interpretation of the result is that individuals who cannot engage System 1 (Slovic et. al. 2003) are less capable of making decisions involving uncertainty.

The Bechara et al. (1994,1997) experiments have been reproduced many times comparing normal individuals to various types of dysfunctional individuals. Recently it has been shown that there is substantial heterogeneity in IGT performance even among individuals with no brain dysfunction (Glicksohn et al., 2004). Heterogeneity in individuals’ reliance on intuition, even absent brain impairment, is one obvious, yet unexplored potential explanation for such performance differentials. In the last section of the paper, we provide novel evidence supporting this conjecture.

4. The survey and experimental data

We use two sources of data. The first source is the second wave of the Unicredit Clients' Survey (UCS) which was run between June and September 2007. The survey is comprised of interviews with a sample of 1,686 Italian customers of Unicredit, one of the largest European Banking groups. The sample was stratified according to three criteria: geographical area, city size, and financial wealth. To be included in the survey, customers must have had at least 10,000 euros worth of assets with Unicredit at the end of 2006. The survey is described in greater detail in the Appendix 1.

Besides collecting detailed demographic information and data on investors’ financial investments, the survey collected data on the way respondents handle decisions—whether by reliance on intuition or by effortful reasoning—as well as indicators of various attitudes that

⁷ Strengthening the interpretation that emotional capacity was responsible for performance differences, during the experiment participants’ galvanic skin response (GSR) was measured. GSR has been found to be highly sensitive to emotions. The authors found that participants who were not brain damaged showed a "stress" reaction to hovering over the bad decks after turning only 10 cards. Moreover, these same participants started to bet more frequently on the “good decks” after approximately 10 trials. By contrast, the brain-damaged participants never exhibited a physiological stress reaction, which is interpreted and is consistent with these patients exhibiting no emotional change as they incurred losses or made gains.

have a bearing on financial decisions and, more generally, on decisions under risk and uncertainty. Here we focus on two prominent attitudes that have been cited to characterize decisions under risk and uncertainty: risk aversion and ambiguity aversion.

Our second source of data is two experiments that we conducted on-line in 2009 and 2010. Participants in both experiments were recruited from among college students attending one of two universities in Rome, Italy: LUISS Guido Carli and La Sapienza. In total, we have data for 1306 students who completed exactly one of the two experiments. The experiments allow us to construct incentive-compatible measures of risk and ambiguity aversion as well as alternative, more objective, measures of participants' primary decision modes and favorability towards relying on intuition. Details on the design of the experiments, the measures of preferences for risk and ambiguity as well as the measures of decision mode that we collected appear in the Appendix.

The survey and experimental data should be viewed as complementary. The main advantage of the survey is the heterogeneity of the sample which involves true investors and comes close to being representative of the population of Italian investors (see Alvarez et. al, 2010). The main drawback of the survey data is that because of time and space limitations the questions that can be asked in a general purpose survey are limited and normally involve only self-assessed descriptions when measuring decision mode or hypothetical situations when eliciting risk and ambiguity preferences. Hence, the measures of aversion to risk and ambiguity may not be incentive compatible. The main advantage of the experiment is its narrow focus making it possible to dig deeper and obtain measures of intuitive thinking using different methodologies. Additionally, monetary incentives in the experiments were designed to make truthful revelation of risk and ambiguity preferences optimal. The main drawback of the experiment is that participants are students, which limits the study of the relationship between wealth and attitudes toward risk and uncertainty.

5. Thinking mode and attitudes towards risk in the survey data

5.1. Measuring decision mode: intuition and reasoning

Even though the dual system is a feature of all individuals, people differ in the prevalence of one system or another when making decisions (Stanovich and West, 2000, 2003; Klein, 2003). Some individuals make decisions only after a thorough processing of all available information and a systematic comparison of the potential alternatives, even at the cost of waiting

to make a decision possibly losing an opportunity. Others decide quickly, even (or perhaps even more) when faced with complex problems, processing at glance the little information at hand and coming up with a choice. Thus, to establish whether thinking mode affects attitudes towards risk we can use variation in the reliance on the two systems across individuals. To understand how people make decisions and who relies more on System 1 or 2, UCS respondents were asked the following question:

“Think of when you make a decision. Generally speaking, do you tend to decide rather quickly relying mostly on your intuition or rather do you tend to think accurately about all possible alternatives and consequences of your choice, taking as much time as needed before reaching a final decision?”

Respondents can answer in three ways: (1) *I decide very rapidly on the basis of my intuition;* (2) *I partly ponder and partly rely on intuition;* (3) *I ponder accurately, reasoning carefully about my choice.*”

This question allows us to classify survey participants into three groups that differ in the prevalence of intuitive thinking versus reasoning. As shown in Panel A of Table 1, the fraction of intuitive thinkers in the sample is 14.6 percent; the others are almost equally divided between those who rely on both intuition and reasoning and those who use predominantly deliberative reasoning when making decisions.

For this indicator to be a valid measure of the decision mode, two conditions must hold. First, since the indicator is based on self-reported information, one has to trust that people are consciously aware of how they typically approach decisions. Second, since we rely on cross-sectional differences on how individual make decisions, the underlying assumption is that there are systematic differences in the mode of thinking across individuals and that, even if all people clearly use both intuition and reasoning, in some individuals intuitive thinking is more prevalent than in others. That is, reliance on intuition versus reasoning must be, at least to some extent, an individual trait. Evidence from twins studies points to a strong genetic component in the way people make decisions, suggesting that decision mode is indeed a stable trait (Bouchard and Hur, 1998).⁸ That individuals are consciously aware of this trait is supported by the evidence in

⁸Stanovich and West (2000) also provide evidence supporting this assumption. They argue that the systematic differences in performance along a large variety of tasks that they document in a sample of individuals can be traced to differences in the prevalence of one of the two systems of thinking, System 1 (based on intuition) or 2 (based on reasoning). Similarly, Klein (2003) offers many examples consistent

our experiments which shows that the self-reported measure is significantly correlated with objective measures of decision style (Section 7).

5.2. Measuring attitudes towards risk and ambiguity

We measure risk attitudes in two ways. First, the survey has a qualitative indicator of risk tolerance patterned after the US Survey of Consumer Finance:

Which of the following statements comes closest to the amount of financial risk that you are willing to take when you make your financial investment: (1) a very high return, with a very high risk of losing money; (2) high return and high risk; (3) moderate return and moderate risk; (4) low return and no risk.

Only 18.6 percent of the sample chooses “low return and no risk” so most are willing to accept some risk if compensated by a higher return, but very few (1.8 percent) are ready to choose very high risk and very high return (Panel B in Table1).⁹ From this question we construct a categorical variable ranging from 1 to 4 with larger values corresponding to greater dislike for risk.

The question allows us to classify risk attitudes but not to distinguish absolute and relative attitudes towards risk. Since we observe income and wealth in the data, we could purge the risk aversion indicator from differences in endowments. However, we also use a second measure that allows us to classify individuals according to their relative risk aversion. This relies on questions similar to those analyzed by Barsky et al. (1997) in the Panel Study of Income Dynamics, where individuals are asked to choose among different lifetime earnings profiles. In particular, the UCS asks:

Suppose you are the only income earner in your family and must change job. You can choose between two options:

- A. *With firm A you will make the same wage that you make today for sure;*
- B. *With firm B you have a 50% chance of making twice as much as in your current job and a 50% chance of seeing it reduced by 1/3. Which of the two opportunities do you choose?*

with the idea that individuals differ systematically in their willingness to rely on intuition to make decisions.

⁹A recent literature on eliciting preferences from survey data shows that qualitative questions on risk aversion are informative and have predictive power on behavior, see Barsky et al. (1997), Guiso and Paiella (2008), Dohmen et. al. (2011).

If they chose A then they are asked: *If by choosing firm B you had as before a 50% chance of doubling your wage but with probability 50% you could see it reduced by $\frac{1}{4}$ (instead of $\frac{1}{3}$), would you still choose firm A? (Yes, No)*

If they chose B then they are asked: *If by choosing firm B you had as before a 50% chance of doubling your wage but a 50% probability of seeing it reduced by 50% (instead of $\frac{1}{3}$), would you still choose firm B? (Yes, No)*

From the answers to this question we obtain a second categorical variable taking values from 1 to 4 that is increasing in the degree of *relative* risk aversion (see Table 1, Panel B).

Ambiguity aversion reflects a dislike for situations where individuals are uncertain about the probabilities of outcomes rather than, or in addition to, the aversion they may have to the variability in outcomes. In recent years several studies have provided a theoretical basis for aversion to ambiguity and have characterized preferences that separate ambiguity aversion from risk aversion. For example Maccheroni et al. (2005) and Ghirardato et. al. (2004) study preference representations where aversion to ambiguity is identified by a single parameter that is distinguished from risk aversion. We construct a dummy variable indicating whether individuals are averse to ambiguity using a question in the UCS based on the original Ellsberg (1961) thought experiment:

Suppose you face two urns each with 100 balls. The first urn has 100 balls, some are red some are black but you do not know how many are red and how many are black. The second urn has 100 balls: 50 red and 50 black. One ball is drawn from the urn that you choose and you will win 1,000 Euros if the ball is of the color that you choose. Choose the color. Now tell me whether you prefer to have the ball drawn from the first of the second urn. Choose one of the following options:

1. *A strong preference for the first urn.*
2. *A slight preference for the first urns.*
3. *Indifferent between the two urns.*
4. *A slight preference for the second urn.*
5. *A strong preference for the second urn.*

We classify those who answer 4 or 5 as ambiguity averse. Table 1, Panel C reports the distribution of the answers to the Ellsberg-type question. The majority (52 percent) is averse to ambiguity either strongly (32 percent) or slightly (19.5 percent). One fourth is indifferent between the two urns suggesting that they are ambiguity neutral. The rest prefers the ambiguous urn. However, without knowing *why* they prefer this urn, we cannot classify these individuals'

ambiguity preferences.¹⁰ About one quarter of respondents fit into this latter category, with 13.2 percent reporting a strong preference for the ambiguous urn. The pattern of responses is similar to that obtained in experiments where individuals face a choice between risky and ambiguous prospects. In particular, it is common to find that some individuals have a preference for ambiguous lotteries.¹¹ For instance Halevy (2007) finds that in an experiment involving 104 individuals who are asked to choose between an ambiguous urn and a risky urn, 61 percent are ambiguity averse, 22 percent ambiguity are neutral and 17 percent prefer the ambiguous urn.

The UCS is the first survey to ask Ellsberg-type questions in a large sample of heterogeneous individuals and thus the first to allow correlating attitudes towards ambiguity with observable characteristics and other attitudes towards risk.

6. Results from survey data

To show the link between risk attitudes and decision style we construct two dummies, one for intuitive thinking (equal to 1 for those who rely mostly on intuition, and zero otherwise) and one for deliberative reasoning (equal to 1 for those who rely mostly on reasoning, and zero otherwise). The comparison group includes respondents who rely on both intuition and reasoning. For each attitude we run a regression on the two dummies for thinking mode and a set of additional variables that capture observable heterogeneity that may be relevant for that attitude. In particular, we control for age, gender, marital status, education and region of residence. We also construct a measure of each household's total wealth and include its log as a further control (see Appendix for details and Table 1, panel D for summary statistics).

6.1. Risk aversion

¹⁰ These individuals could simply believe that the ambiguous urn has a more favorable distribution, for whatever reason. While such unwarranted optimism with respect to the ambiguous urn seems akin to ambiguity loving, it does not fit with any theoretical definition of ambiguity-loving that we know of and hence we do not classify it as such.

¹¹ There are several alternatives to obtaining an index of ambiguity aversion. One is to ask individuals, as we do, to choose between a risky lottery and an ambiguous lottery; an alternative, followed for example by Guiso et al (2007) and by Halevy (2007), is to ask the willingness to pay for lotteries involving risk and involving ambiguity and then back out a measure of ambiguity aversion from the reported prices. A third, recently developed methodology (Bossaerts et al, 2006; Ahn et al, 2007; Choi et al, 2007) faces individuals in lab experiments with a large number of simple portfolio choices involving risky but non-ambiguous and ambiguous assets with varying prices. Individual preference parameters are then retrieved from these choices. Each of these approaches has pros and cons discussed in Section 7.

Table 2 reports the coefficients and standard errors of an ordered probit model for the qualitative indicator of risk aversion. The first column presents a regression of risk aversion on the two dummies of intuitive thinking and reasoning. Reliance on intuition is associated with lower risk aversion compared to individuals who use both intuition and reasoning, but the effect is not statistically different from zero. On the other hand, a predominant reliance on reasoning is associated with significantly higher levels of risk aversion.

To give a sense of the economic importance of thinking mode we compute the marginal effects of relying on intuition and reasoning. Our estimates imply that individuals who rely mostly on reasoning are 5.8 percentage points more likely to be in the most risk-averse group (those preferring low return and no risk) than those who use both reasoning and intuition, which is about one third of the unconditional proportion of individuals in this group.

Column 2 adds demographic variables to the baseline specification. As in previous studies risk aversion increases with age and is significantly lower for males and more educated individuals (e.g. Barsky et al, 1997; Guiso and Paiella, 2008; Dohmen et al, 2011). However, the size and significance of the coefficients of thinking mode are not affected. In fact, thinking mode is poorly correlated with demographic characteristics (age or gender), despite the somewhat popular idea that women are more “intuitive” than men. In the third column we add the log of total wealth as an additional control. Higher wealth is associated with lower risk aversion, as suggested by plausible representations of attitudes towards risk, but again the effect of the thinking mode dummies is unaffected.

Table 3 reports the results of an ordered probit model with relative risk aversion as the dependent variable. The results are similar to Table 2: deliberative respondents (those who rely mostly on reasoning) are significantly more risk averse than those who rely both on reasoning and intuition. Demographic variables also induce similar effects except that here, wealth has no predictive power on relative risk aversion which is consistent with preferences exhibiting constant relative risk aversion. Turning our attention to economic significance, we see again that a deliberative thinking mode has a substantial impact, raising the probability of being in the highest relative risk aversion group by 8 percentage points (15 percent of the sample mean).

A possible concern with our findings is that decision mode indicator captures cognitive ability, which has been found to be *positively* correlated with risk tolerance (Frederick, 2005; Benjamin et al., 2007; Burks et. al (2009), Dohmen et al (2010);). We have several answers to this concern. First, in the same literature cognitive ability is identified with reasoning ability. For

instance, Benjamin et al. (2007) find that mathematical ability is strongly negatively correlated with risk aversion. Insofar as being better at reasoning implies relying more on it, we should find a *negative* effect of our reasoning dummy on risk aversion, not positive.

Second, if our measure of thinking mode was capturing cognitive ability one would expect to find a positive correlation between reliance on reasoning and education if only because IQ test scores are highly correlated with educational attainment. Instead we find a small and negative correlation (-0.054).

Third, if our measure of thinking mode reflects cognitive ability we should find a correlation of this measure with individual time discounts. In fact, Frederick (2005), Benjamin et al. (2006), Burks et al (2009) and Dohmen et al (2010) find that people with better cognitive ability, besides being less risk averse, are also more patient. However, when we use a measure of subjective time discounting present in the UCS we find no statistically significant effect of intuition and reasoning.¹² For all of these reasons, we conclude that our measure of thinking mode reflects the way individuals approach decisions rather than their cognitive ability.

6.2. Ambiguity aversion

Table 4 reports estimates of the probability of being ambiguity averse. We estimate a probit model using the dummy for ambiguity aversion as the dependent variable. The dummy takes the value of one if a respondent is classified as ambiguity averse and zero otherwise. Column 1 shows that thinking mode has a strong and statistically significant effect on the probability of being ambiguity averse. Intuitive thinkers are much less likely to be averse to ambiguity than people who decide using both intuition and reasoning. On the other hand, deliberative thinkers are much more likely to be ambiguity averse. These patterns are unchanged when we control for demographic variables (column 2) or wealth (column 3). The marginal effects of thinking mode are again large: reliance on intuition lowers the probability of being

¹² The UCS asked survey participants to choose between EUR 100,000 one year from the interview and an immediate sum $M < 100,000$. The initial value of M is set at 95,000 euros. If the respondent accepts (turns down) 95,000 euros now she is asked whether she would accept 90,000 now (respectively 97,000); if she accepts 90,000 (turns down 97,000) she is further asked whether she would accept 80,000 now (respectively 98,000). If she turns down 8,000 her discount rate is above 20%; if she turns down 98,000 the alternative offered is to wait one year and get 100,000. This allows classifying respondents into 6 categories with increasing subjective discount rates. In an ordered probit regression of this indicator of subjective discount the dummy for intuition has a small positive coefficient and that for reasoning small and negative but none of them is statistically significant (t-stat of 0.61 and -1.02, respectively).

ambiguity averse by about 13 percentage points, which is about one third of the sample proportion of ambiguity averse respondents.

One interpretation of the positive correlation between intuition and ambiguity tolerance is that intuitive thinking proxies for impulsivity and, at the same time, impulsive individuals are more likely to make mistakes, as shown in Frederick (2005). Following this argument, one could argue that intuitive individuals choose the ambiguous lottery more often by mistake, because, being less patient, they make decisions too fast and are thus more exposed to mistakes. If this were the case we should find a strong correlation between our thinking mode indicator and subjective discount. Contrary to this argument, we find no correlation as was shown at the end of Section 6.1.

The correlation between ambiguity aversion, demographic variables and wealth is interesting in its own right. As far as we know, most existing evidence on aversion to ambiguity has been obtained from experiments with little variation in individual characteristics and, so far, no evidence is available on the relationship between ambiguity aversion and wealth. Differently from attitudes towards risk, we find in Table 4 that age and gender are unrelated with ambiguity aversion (columns 2 and 3). We find a mild effect of education and marital status: more educated individuals are more likely to be averse to ambiguity, as are married people (column 2). Only the effect of marital status survives when we control for wealth, however (column 3).

Interestingly, the effect of wealth on the probability of being ambiguity averse is positive (column 3). Neither theory nor introspection provides hints about how attitudes toward Knightian uncertainty should vary with wealth, making it difficult to interpret this correlation. However, it may not be unreasonable that it is the wealthy that are particularly afraid of unknown outcome probabilities: after all, a wrong decision when probabilities are unknown may transform a rich man into a poor man, but can only transform a poor man into a (still) poor man.

The positive correlation between wealth and ambiguity aversion could have important implications for portfolio choice and assets pricing. First, since the wealthy hold a substantial portion of assets, it is their preferences that mostly matter for the pricing of risk. If aversion to ambiguity and wealth are positively correlated, the correlation may help account for a large equity premium if equity happens to be ambiguous, even if relative risk aversion does not vary with wealth. Secondly, it may explain why, even at high levels of wealth, in many countries people fail to participate in the stock market. This fact is hard to rationalize with a fixed cost of

participation (Guiso et al. 2008), but is not inconsistent with aversion to ambiguity, as shown by Dow et al. (1992), Bewley (1998) and Epstein and Schneider (2010).

7. The experiments

Like most experiments, our pool of participants lacks the heterogeneity in individual characteristics necessary to uncover many of the interesting relationships we found using the UCS data. There is little variation in age or education level, and the variation we observe in income is not participants' income but rather their parents' income. Nevertheless, our experimental data allow us to provide evidence that the phenomenon at the center of our current inquiry—that differences across individuals in their predominant mode of think lead to predictable variation in risk and ambiguity aversion—is robust. We find a significant relationship between risk and ambiguity aversion and decision mode even in this vastly different experimental population, and even though decisions are not purely hypothetical. Below we describe our experimental measures of thinking mode and risk and ambiguity aversion. For details on the experimental designs see the Appendix.

7.1 Measures of thinking mode

Since the intuitive system in the brain is relatively fast, individuals who rely more on intuition than on effortful, deliberative, reasoning should reach decisions more quickly. Accordingly, our main alternative (behavioral) measure of thinking mode in both experiments is decision speed: we record the amount of time in seconds that each participant takes to reach decisions in choices involving risk and uncertainty.¹³

Specifically, we focus on the time participants spent on two questions used in our ambiguity preferences elicitation procedure, since these questions involved real monetary stakes in the context of risk and ambiguity. One question asks participants to predict which color ball would be drawn from an (ambiguous Ellsberg) urn containing 10 red and white balls in unknown proportions and rewards participants €20 for a correct prediction (incorrect guesses

¹³ We collect decision time data for all sections of each experiment. In our analysis, we focus on decisions involving real monetary stakes and which involve risk and uncertainty. We focus on these questions because they are central to our investigation. However, the patterns in decision time and thinking mode are present in other sections of the experiment that do not involve monetary stakes, risk or uncertainty (see, e.g., Section 8, below).

pay zero). The other identically-remunerated question asks participants to guess which color ball would be drawn from a non-ambiguous urn containing five red and five white balls.¹⁴

From the time it takes participants to complete these two questions we construct a 3-category thinking mode classification analogous to the self-reported measure in the UCS by labeling subjects according to how relatively quickly they answered. A participant is labeled “intuitive” if his or her decision time was in the bottom quartile of the experiment data, i.e., if they made their decisions relatively quickly. We label those in the top quartile “deliberative.” To create a comparison group, all other participants are labeled “partially deliberative.”

As a robustness check on our behavioral measure of thinking mode, we collect two additional thinking mode measures: we collect the same self-reported 3-category measure of thinking mode as in the UCS as well as a related widely-used psychological measure of intuitive and deliberative thinking: the 40-item Rational Experiential Inventory (REI in Pacini and Epstein, 1999). The REI consists of four 10-item subscales, the two most relevant of which measure an individual’s favorability toward relying on intuition and reasoning, respectively.¹⁵ We classify participants as “high-intuitive” if they score in the top 25th percentile on this subscale relative to other participants in the same experiment (i.e., Experiment 1 or 2), and “low-intuitive” if their scores are in the bottom 25th percentile.

We have less confidence in the validity of these latter two measures in our context which involves only students, because we feel students are generally encouraged to think of themselves as deliberative, effortful respondents which may color self-assessments. Our behavioral decision-time measure of thinking mode should suffer to a lesser extent, if at all, from such self-image biases. Still, it is worth noting that these three measures of thinking mode are strongly correlated with each other in both experiments, so they appear to be capturing a common and prevalent phenomenon.¹⁶

¹⁴ These exact questions were asked only in Experiment 1. We asked two different, also very standard, questions to elicit ambiguity preferences in Experiment 2 (see the Appendix for details), and to construct a behavioral decision mode measure in Experiment 2. The questions used in Experiment 2 have the advantage of permitting the identification of ambiguity-loving preferences.

¹⁵ The four subscales measure: (i) an individual’s belief in their own ability to use rational thinking (or, in our terminology, reasoning or deliberation); (ii) an individual’s belief in their own ability to use experiential (or, in our terminology, intuitive) thinking; (iii) an individual’s favorability toward engaging in rational thinking; and (iv) an individual’s favorability toward engaging in intuitive thinking.

¹⁶ The correlations between the self-reported decision mode variable and our behavioral decision mode variable are 0.14 ($p < 0.01$) and 0.16 ($p < 0.01$) in Experiments 1 and 2, respectively. The intuitive thinking subscale of the REI has a correlation coefficient of -0.12 ($p < 0.01$) and -0.45 ($p < 0.01$) with our behavioral thinking mode measure and self-reported thinking mode, respectively, in Experiment 1. In

7.2 Measures of risk and ambiguity aversion

To measure risk aversion, we use a procedure due to Holt and Laury (2002). Briefly, participants face a sequence of choices between two binary lotteries: lottery A and lottery B. Lottery A features a high maximum payoff (€38.50) but a low minimum payoff (€0.10), while lottery B features a lower maximum payoff but a higher minimum payoff (€20 and €16, respectively). There is a known probability p of the high payoff in both lotteries. Participants choose between lotteries A and B in each of a sequence of 10 decisions where the probability of the high payoff, p , is increased from 0.1 to 1 in steps of 0.1. The decision in this sequence where an individual switches from preferring the less risky lottery (B) to the riskier lottery (A) is our measure of risk aversion, which takes values from 1 to 10. This measure is increasing in risk aversion as more risk averse agents should switch to the riskier lottery later in the sequence.

Because measuring ambiguity aversion is trickier than measuring risk aversion, we use two different elicitation procedures. In Experiment 1 we use an urn-valuation procedure pioneered by Halevy (2007). In Experiment 2, we measure ambiguity preferences more directly by letting participants choose between lotteries involving either risk or ambiguity. This second procedure has two main advantages: it is simpler to implement and, at the same time, allows identification of ambiguity-loving behavior which is not possible with the Halevy procedure.

Specifically, the first experiment used a two-phase procedure to measure ambiguity aversion. In the first phase, two urns are described to participants: one (non-ambiguous) urn contains 5 red balls and 5 white balls, while the other (ambiguous) urn contains 10 red and white balls. Participants are told the computer will choose one ball at random from each of the two urns, and asked to guess which color ball will be drawn from each of the two urns. Each correct guess pays €20, while incorrect guesses pay zero. In the second phase of the procedure participants state the minimum amount of money they would accept in exchange for the right to collect the earnings from each of their two bets, separately. Minimum willingness-to-accept is elicited using a Becker-DeGroot-Marschak (1964) mechanism which provides incentives for truthful reporting.¹⁷ The difference in a participant's valuations for their two bets is an indicator

Experiment 2, the reasoning subscale of the REI is positively correlated with our behavioral decision mode variable (0.12, $p < 0.01$) and with the self-reported decision mode (0.14, $p < 0.01$).

¹⁷ For each of the two urn-guesses, separately, the procedure is as follows: the computer draws a number between 0 and 20 which can be thought of as a "price." If this price is higher than the participant's stated minimum willingness-to-accept, the participant receives a payment equal (in euros) to the price but gives

of ambiguity aversion. Those who value the bet related to the ambiguous urn strictly less are labeled ambiguity averse.¹⁸

In Experiment 2, we describe to participants the same two urns used in Experiment 1. They are then told that one ball will be drawn from one of the two urns. They must choose which of the two urns the ball is extracted from and will win €20 if the extracted ball is red. Participants are then given a second, nearly identical, choice. The only difference being the color of the winning ball: white.¹⁹ We label those who choose the non-ambiguous urn both times ambiguity averse and those who choose the ambiguous urn both times ambiguity-loving. All other participants are labeled ambiguity neutral. Table 5 gives descriptive statistics for our decision mode measures as well as participant demographics.

7.3. Experimental results

Results from both experiments confirm the main findings in the survey data. Participants labeled more intuitive by our behavioral measure of thinking mode are both less risk averse and less likely to be ambiguity averse than partially deliberative individuals. Furthermore, in Experiment 2 where ambiguity-loving can be identified, the results suggest that being an intuitive thinker both significantly reduces ambiguity aversion and significantly increases ambiguity-loving.²⁰ These patterns prove robust to controlling for relevant demographic

up his or her right to the earnings from the urn-guess. Otherwise the participant retains the right to the earnings from his or her urn-guess. This mechanism provides incentives for participants to truthfully state their values for each of the bets irrespective of risk preferences. Since the main concern with this mechanism is that it is relatively complicated, each participant had to pass a short quiz about the procedure immediately before stating their minimum-willingness-to-accept values. Participants who failed the quiz re-took it until they passed before being allowed to proceed.

¹⁸ While it is tempting to label as “ambiguity-loving” those who value the bet related to the ambiguous urn strictly more, this is not possible. For example, an individual could simply believe that there is a larger proportion of red balls in the ambiguous urn, and therefore value a bet of “red from the ambiguous urn” more highly than a bet on either color ball from the non-ambiguous urn. This is a perfectly valid subjective belief that would be consistent with strictly valuing a bet on the ambiguous urn more. We thank David K. Levine for pointing this out to us.

¹⁹ In particular, they are told to consider *exactly* the same two urns. Note that in each choice indifference between the two urns is a valid option. It is explained that if a participant specifies that they are indifferent between the two urns then one of the two urns will be randomly chosen and that, in addition to whatever winnings are associated with extracting a ball from this randomly-chosen urn, he or she will earn a small fixed fee (€0.10). This ensures that stated urn preferences, if any, are strict.

²⁰ As in the survey, one may be concerned that our intuitive thinkers are simply more prone to make mistakes and this is why they appear more risk tolerant and less ambiguity averse in our data. As detailed in the Appendix, we implement our risk aversion elicitation procedure in two slightly different ways, so that mistakes should manifest themselves differently across experiments. For example, making a mistake in the risk preferences elicitation procedure used in Experiment 2 is equally likely to mis-classify an

determinants of risk and ambiguity aversion such as gender and parents' income and, as in the survey, when controlling for a measure of cognitive ability.²¹

Table 6 presents regressions of risk aversion on thinking mode for both experiments separately. Negative and significant coefficients on the dummy for intuitive thinkers indicate that intuitive thinkers are significantly less risk averse than partially deliberative thinkers (the excluded category), while positive and significant coefficients on our deliberative indicator imply deliberative thinkers are more risk averse than those who rely on both deliberative and intuitive thinking.

Similarly, Table 7 demonstrates that being an intuitive thinker significantly reduces the likelihood of being ambiguity averse and increases one's chances of being ambiguity loving relative to partially deliberative thinkers. Computing the marginal effects of decision mode on ambiguity preferences reveals an impact strikingly similar to the analogous estimates in our survey results: controlling for demographics, being an intuitive thinker reduces the probability of being ambiguity averse by 9.2 percentage points in Experiment 1 and 11.7 percentage points in Experiment 2. Furthermore, in Experiment 2 where constructing an indicator of ambiguity loving is possible, we find that the marginal effect of being an intuitive thinker is to increase the probability of being ambiguity loving by 11.4 percentage points.

8. Performance in uncertain environments

So far our analysis with survey and experimental data shows that decision mode and attitudes toward risk and ambiguity are correlated. One reason this may occur is that intuitive thinkers are more comfortable in situations involving risk and uncertainty because reliance on intuition provides a comparative advantage. If this is the case, we should find that intuitive thinkers perform better in uncertain situations. In this section we provide evidence confirming

individual as risk loving as it is to mis-classify an individual as risk averse. It is also not clear whether mistakes could explain the patterns in ambiguity preferences given our two different elicitation mechanisms. In particular, being classified as ambiguity loving requires consistent answers across two separate questions, reducing the likelihood that such classification is solely due to mistakes. Finally, the idea that intuitive thinkers are simply more prone to mistakes is not consistent with the evidence in the Iowa Card Task experiment in Section 8, where intuitive thinkers *perform better* than deliberative and partially deliberative thinkers.

²¹ Here our cognitive ability measure is a participant's score on a standardized mathematics exam given in the final year of high school in Italy. The correlation between cognitive ability and our behavioral decision mode variable is non-significant in both experiments: 0.017 ($p > 0.7$) in Experiment 1 and -0.034 ($p > 0.35$) in Experiment 2. This suggests that our behavioral decision mode measure is not simply a proxy for cognitive ability.

this prediction. Our first source of evidence is experimental, while our second source comes from data collected about actual investment decisions.

To obtain an experimental measure of performance, we invited a random sub-sample of participants in Experiments 1 and 2 to participate in an Iowa Gambling Task. In total, 168 students participated. Each participant was given an endowment of 10 euros and presented with four card decks on his or her computer screen.²² Each participant selected cards, one at a time, from any of the four decks by clicking.²³ Participants knew nothing about the card decks, i.e. they operated in a completely ambiguous environment. Unbeknownst to participants: i) two of the four card decks were programmed to yield a positive expected return; ii) the other two decks yielded a negative expected return; and iii) each participant would get a total of 100 draws from the four card decks.²⁴ All participants were actually paid their earnings from the card task. To classify participants in terms of decision mode, we use their behavioral decision mode indicator from Experiment 1 or 2.

Figure 1 presents the average proportion of draws from good decks for 10-card decision blocks by decision mode. For example, intuitive thinkers drew, on average, about 56 percent of their first 10 cards from good decks (or 5.6 cards), while deliberative thinkers managed to draw only about 42 percent of their first 10 cards from good decks. From Figure 1 it is evident that intuitive thinkers generally outperformed deliberative thinkers in this ambiguity-laden task. Table 8 makes this comparison more formal: intuitive thinkers drew significantly more cards from good decks compared to all other participants. On average, controlling for demographics, intuitive thinkers drew about 7.4 percent more cards from good decks than partially deliberative thinkers who managed to draw about 53.7 percent of their cards from good decks.²⁵ There was

²² The Iowa Card Task experiment was programmed and conducted with the software z-Tree (Fischbacher 2007).

²³ The decks were pre-programmed to be identical to the decks used in the original Iowa Gambling Task (Bechara et al. 1994).

²⁴ The exact order of wins and losses in each deck was pre-randomized, so that everybody faced the exact same decks. The two bad decks were pre-programmed to pay -100 points every 10 draws, while the good decks paid +250 points every 10 draws. Participants started with 2000 points which were converted to euros at a rate of 200 points = 1 euro. The order in which the good decks and bad decks appeared on the computer screen was also randomized to avoid any ease-of-clicking confound. For example, each participant was faced with four card decks, but one participant might face the order: Good Deck, Bad Deck, Good Deck, Bad Deck; while another participant could have faced the order: Good Deck, Bad Deck, Bad Deck, Good Deck.

²⁵ This difference is statistically significant at the 1% level using simple OLS with standard errors clustered by session. Demographic controls include age, gender, family income and a measure of cognitive ability.

no significant difference between the performance of deliberative thinkers and partially deliberative thinkers, as is also evident in Figure 1.

Our second source of evidence combines the UCS survey data with a panel of administrative data having detailed information on respondents' financial portfolios. Data are available at a monthly frequency starting in December 2006 until October 2009. Thus, they cross the Great Recession. Specifically, for each of 26 asset classes we know the value of each individual's holdings at the end of each month and the net flow in each month. Because we observe the net assets flows we can identify net trades.

We consider market timing in the months preceding the collapse of Lehman Brothers, a situation involving substantial knightian uncertainty (Caballero, 2009; Caballero and Simsek (2011)). If in situations rife with ambiguity intuitive stockholders elaborate an effective decision more quickly than deliberative investors, we expect that they make good use of this ability and exit the market before the collapse of Lehman Brothers at a faster pace than deliberative stockholders. That is, conditional on selling stocks they should rather sell at a faster rate before the collapse than after. Figure 2 gives a graphical illustration of this phenomenon. It plots the differences in the fractions of intuitive and deliberative stockholders who held stocks in December 2006 and who sold stocks in subsequent months. The vertical bar identifies the collapse of Lehman. The figure shows that intuitive thinkers are more likely to have sold stocks before the collapse of the stock market than deliberative investors: in 17 of the 21 months before the Lehman collapse intuitive investors were strictly more likely to have sold stocks. After Lehman there is no difference between the two groups. Table 10 shows this more formally. It reports estimates of the following linear probability model:

$$s_{it} = \alpha(\text{before}_t \times \text{intuitive}_{it}) + \beta[(1 - \text{before}_t) \times \text{intuitive}_{it}] + \gamma \text{before}_t + \delta(1 - \text{before}_t) + \lambda Z_{it} + u_{it}$$

where s_{it} is a dummy equal to one if investor i sells stocks in month t ; sell before equals one before the Lehmann shock, intuitive equals one for intuitive investors, and Z is a vector of additional control variables. The coefficient α measure any extra tendency to sell stocks by intuitive investors before the collapse of the market relatively to the mean rate at which stockholders were selling stocks, measured by γ . Parameter β measures this tendency but after the collapse relatively to the means rate at which investors were selling, measured by δ . A

positive value of α and a zero value of β would be evidence that intuitive investors perform better at timing the market than deliberative ones.

The estimates in column (1) are consistent with this hypothesis. Intuitive investors are 1.4 percentage points more likely to sell stocks before Lehman's collapse than the average (5.7 percent). After the collapse they sell at the same rate as deliberative investors. This result holds if we add demographic variables and investors' wealth (column 2) and it is not due to the intuitive dummy capturing some other dimension of ability, or greater financial information. In the remaining columns we add interaction terms between the *before* and (1-*before*) dummies with a measure of education (column 3) and proxies for financial literacy (column 4); a self-reported measure for financial capability (column 5); and the time spent gathering financial information (column 6). None of these variables gives an advantage in timing the market, while the effect of intuitive thinking before Lehman is always significant.

9. Conclusions

The paper documents wide individual heterogeneity in the two attitudes that have been used to characterize choice under risk and uncertainty. Most individuals dislike risk as well as ambiguity, but the intensity varies with observable characteristics. The two attitudes are not independent. Empirically, individuals who dislike risk more are also more likely to be averse to ambiguity, as also documented by Hsu et al. (2005) and Bossaerts et al. (2006). Extending these latter results, we show that a common factor linking these attitudes is the predominant way in which people handle decisions: whether by intuitive thinking or through effortful reasoning.

We find that predominant thinking mode is systematically related to how much people dislike risk and whether they are averse to ambiguity. Intuitive thinkers are more willing to tolerate risk and ambiguity than people who handle decisions by effortful reasoning. Why is this so? We argue that one plausible interpretation is that intuitive thinking is particularly apt at dealing with complex situations involving substantial uncertainty and many alternatives, as implied by Damasio, Tranel and Damasio (1991) and Bechara et al. (1997). That intuitive thinking can be a powerful mode of achieving conclusions should not be surprising: many problems in mathematics find first an intuitive solution (a conjecture) and only later, through laborious reasoning, receive an analytic proof. Sometimes the time gap between conjecture and proof can be as long as a century, as with Poincaré's conjectures. Sometimes even after centuries

and many attempts by excellent mathematicians the proof is still elusive (e.g., Goldbach's conjecture). The length of these gaps are a good measure of the power of intuitive thinking and suggest that intuition is particularly valuable when problems are analytically hard as those involving substantial ambiguity. This is consistent with our evidence from the Iowa card game and from market timing during the financial crisis showing that intuitive thinkers perform better when choices are made under substantial risk and ambiguity.

Though attitudes towards risk and ambiguity have as common root the individual thinking mode, we also find that they differ in the way they are related to important observable variables, such as age, gender and, most importantly, wealth. While aversion to risk is negatively related to wealth we find that aversion to ambiguity is positively correlated with wealth. Correlation across these attitudes as well as their correlation with individual wealth can have important consequences for financial portfolio decisions and for the possibility of reconciling some of the puzzles in finance by allowing for more complex preference representations. As pointed out by Bossaerts et. al (2006) a positive correlation between risk and ambiguity aversion can help explain the "value effect". Furthermore, the positive correlation between ambiguity aversion and wealth that we document may, if confirmed, provide an explanation for the stockholding puzzle (the fact that many do not invest in stocks in spite of the large equity premium) at high wealth levels. In addition, if the wealthy are increasingly ambiguity averse this may contribute greatly to explaining the equity premium even assuming mild levels of risk aversion.

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Table 1. Sample distribution of thinking mode, risk aversion and ambiguity aversion.

The table shows the sample distribution of the answers to risk aversion (Panel A and B) and ambiguity aversion (Panel C) questions and summary statistics for the variables used in the regressions based on the UCS survey.

A. Thinking mode

	<i>Mainly intuition</i>	<i>Both intuition and reasoning</i>	<i>Mainly reasoning</i>
% of respondents	14.59	42.76	46.65
N. of respondents	246	721	719

B. Risk aversion

	<i>Low risk aversion</i>	<i>Medium risk aversion</i>	<i>High risk aversion</i>	<i>Very high risk aversion</i>
<i>Qualitative indicator</i>				
% of respondents	1.84	27.58	51.96	18.62
N. of respondents	31	465	876	314
<i>Relative risk aversion</i>				
% of respondents	13.17	8.01	26.10	52.73
N. of respondents	222	135	440	889

C. Ambiguity aversion

	<i>Strong preference for ambiguous urn</i>	<i>Mild preference for ambiguous urn</i>	<i>Indifferent between risky and ambiguous urn</i>	<i>Mild preference for risky urn</i>	<i>Strong preference for risky urn</i>
% of respondents	13.17	10.62	24.67	19.45	32.09
N. of respondents	222	179	416	328	541

D. Summary statistics

Variable	<i>Mean</i>	<i>Sd</i>	<i>mim</i>	<i>max</i>
<i>Risk aversion</i>				
Qualitative indicator	2.87	0.72	1	4
Relative risk aversion	3.18	1.05	1	4
Ambiguity averse	0.52	0.50	0	1
Intuitive	0.15	0.35	0	1
Deliberative	0.43	0.49	0	1
Age	54.81	12.26	25	89
Male	0.70	0.46	0	1
Education (years)	12.73	4.25	0	21
Married	0.68	0.46	0	1
Resident in the North	0.51	0.50	0	1
Resident in the Center	0.24	0.43	0	1
Large city	0.013	0.12	0	1
Financial literacy	4.63	1.15	1	8
Financial ability	3.20	0.85	1	5
Financial information	2.36	1.62	1	7

Table 2: Determinants of the qualitative indicator of risk aversion.

The table shows ordered probit estimates of the probability that the investor is risk averse. The left hand side is a categorical variable taking values from 1 to 4, with higher values corresponding to a higher degree of risk aversion measured from self-reported preferences for risk and return combinations. *Only Intuitive* is a dummy equal to 1 if the investor relies mostly on intuition when making decisions (zero otherwise); *Deliberative* is a dummy equal to 1 if he relies mostly on reasoning (zero otherwise). The excluded group is those who partly rely on intuition partly on reasoning. Standard errors are reported in parenthesis. *** significant at 1%; ** significant at 5%.

	(1)	(2)	(3)
Intuitive	-0.063 (0.081)	-0.077 (0.082)	-0.099 (0.082)
Deliberative	0.236** (0.058)	0.213** (0.059)	0.217** (0.059)
Age		0.004 (0.002)	0.006* (0.002)
Male		-0.324** (0.061)	-0.308** (0.061)
Education		-0.041** (0.007)	-0.035** (0.007)
Married		-0.045 (0.060)	-0.035 (0.060)
North		-0.031 (0.068)	-0.016 (0.068)
Centre		-0.029 (0.077)	-0.016 (0.078)
City size		-0.330 (0.234)	-0.340 (0.234)
Log Household Wealth			-0.099** (0.028)
Observations	1,686	1,686	1,686

Table 3: Determinants of the indicator of relative risk aversion.

The table shows ordered probit estimates of the probability that the investor is risk averse. The left hand side is a categorical variable taking values from 1 to 4, with higher values corresponding to a higher degree of relative risk aversion. *Intuitive* is a dummy equal to 1 if the investor relies mostly on intuition when making decisions (zero otherwise); *Deliberative* is a dummy equal to 1 if he relies mostly on reasoning (zero otherwise). The excluded group is those who partly rely on intuition partly on reasoning. Standard errors are reported in parenthesis. *** significant at 1%; ** significant at 5%.

	(1)	(2)	(3)
Intuitive	-0.060 (0.083)	-0.077 (0.084)	-0.076 (0.084)
Deliberative	0.203** (0.061)	0.194** (0.062)	0.197** (0.062)
Age		0.006* (0.002)	0.006** (0.002)
Male		-0.305** (0.064)	-0.310** (0.064)
Education		-0.029** (0.007)	-0.026** (0.007)
Married		-0.036 (0.063)	-0.028 (0.063)
North		0.120 (0.069)	0.129 (0.070)
Centre		0.105 (0.080)	0.119 (0.080)
City size		-0.158 (0.235)	-0.164 (0.235)
Log Household Wealth			-0.036 (0.028)
Observations	1686	1686	1686

Table 4. Determinants of ambiguity aversion.

The table shows probit estimates of the probability that the investor is ambiguity averse. *Intuitive* is a dummy equal to 1 if the investor relies mostly on intuition when making decisions (zero otherwise); *Deliberative* is a dummy equal to 1 if he relies mostly on reasoning (zero otherwise). The excluded group is those who partly rely on intuition partly on reasoning. Standard errors are reported in parenthesis. *** significant at 1%; ** significant at 5%.

	(1)	(2)	(3)
Intuitive	-0.348** (0.094)	-0.354** (0.095)	-0.342** (0.096)
Deliberative	0.221** (0.066)	0.233** (0.067)	0.230** (0.068)
Age		-0.000 (0.003)	-0.003 (0.003)
Male		0.122 (0.069)	0.104 (0.070)
Education		0.016* (0.008)	0.009 (0.008)
Married		0.180** (0.069)	0.161* (0.069)
North		0.104 (0.078)	0.091 (0.078)
Centre		0.214* (0.089)	0.201* (0.090)
City size		0.254 (0.274)	0.266 (0.274)
Log Household Wealth			0.134** (0.033)
Observations	1,686	1,686	1,686

Table 5. Sample statistics in the experimental data

	<i>Experiment 1</i>	<i>Experiment 2</i>	<i>Iowa Card Task</i>
<i>Behavioral thinking mode (in seconds)</i>			
Intuitive	17.17	40.48	28.59
Partially deliberative	28.64	74.39	60.31
Deliberative	75.24	177.19	180.02
<i>Self-reported thinking mode</i>			
Mainly intuition (dummy)	0.06	0.05	0.05
Both intuition and reasoning (dummy)	0.60	0.59	0.61
Mainly reasoning (dummy)	0.34	0.35	0.35
Risk aversion	4.98	6.17	6.11
Ambiguity aversion (dummy)	0.26	0.43	0.50
Ambiguity loving (dummy)	n.a.	0.17	0.36
REI-Experiential engagement	3.23	3.05	3.06
Male	0.49	0.47	0.51
Age	22.76	24.97	24.62
Math Score	7.76	7.47	7.58
Family Income (in thousand euro)	70.32	44.47	49.33
Number of observations	534	772	168

Table 6. Behavioral thinking mode and risk aversion

Columns 1-2 present estimates using an ordered probit model using our measure of risk aversion in the first experiment as the dependent variable. This measure is increasing in risk aversion. Columns 3-4 present estimates from an ordered probit model using our measure of risk aversion from the second experiment as the dependent variable. This measure is increasing in risk aversion. “Intuitive” is a dummy that takes the value of one if the average time it took an individual to decide on which color to bet on in the risky urn and in the ambiguous urn as described in the text is in the bottom 25th percentile in the data. “Deliberative” is a dummy defined analogously but comprised of those whose decision times were above the 75th percentile in the data. The excluded category includes those whose decision times were between the 25th and the 75th percentile and can therefore be thought of as partially deliberative. “Math Score” is each participant’s self-reported score on a standardized math exam given in the final year of high school in Italy. The score theoretically ranges from 0 to 10. “Experimental design controls” include dummies for the order in which the two versions of each risk and ambiguity elicitation methods were presented to subjects (in experiment 2 they were presented in the same order). The income measure is the participant’s family’s total annual net income from all sources, in thousands of euros. Robust standard errors, clustered at the session level in parentheses.

	Experiment 1		Experiment 2	
	(1)	(2)	(3)	(4)
Intuitive	-0.110** (0.029)	-0.111*** (0.032)	-0.048** (0.023)	-0.042 (0.052)
Deliberative	0.163*** (0.023)	0.084** (0.033)	0.283*** (0.049)	0.307*** (0.065)
Age		-0.003 (0.024)		-0.002 (0.005)
Male		-0.046 (0.063)		0.032* (0.019)
Math score		-0.006 (0.026)		-0.029 (0.034)
30 ≤ Income < 45		-0.194 (0.337)		-0.130 (0.115)
45 ≤ Income < 70		0.078 (0.368)		0.019 (0.035)
70 ≤ Income < 120		-0.184 (0.293)		-0.094** (0.047)
Income ≥ 120		-0.425** (0.186)		0.052 (0.119)
Experiment design controls	Yes	Yes	n.a.	n.a.
Observations	534	486	772	692

Table 7. Behavioral thinking mode and attitude toward ambiguity

Columns 1 and 2 estimate a probit model with a dummy for ambiguity aversion in the first experiment as the dependent variable. Columns 3-6 use data from the second experiment and estimate probit models using dummies for ambiguity-aversion (col. 3-4) or ambiguity loving (col. 5-6) as the dependent variable. “Intuitive” is a dummy that takes the value of one if the average time it took an individual to decide on which color to bet on in the risky urn and in the ambiguous urn as described in the text is in the bottom 25th percentile in the data. “Deliberative” is a dummy defined analogously but comprised of those whose decision times were above the 75th percentile in the data. The excluded category includes those whose decision times were between the 25th and the 75th percentile and can therefore be thought of as partially deliberative. “Math Score” is each participant’s self-reported score on a standardized math exam given in the final year of high school in Italy. The score theoretically ranges from 0 to 10. The income measure is the participant’s family’s total annual net income from all sources, in thousands of euros. “Experimental design controls” include dummies for the order in which the two versions of each risk and ambiguity elicitation method were presented to subjects (in experiment 2 they were always presented in the same order). Robust standard errors, clustered at the session level in parentheses.

	<i>Experiment 1</i>		<i>Experiment 2</i>			
	Ambiguity Aversion		Ambiguity Aversion		Ambiguity Loving	
	(1)	(2)	(3)	(4)	(5)	(6)
Intuitive	-0.373** (0.152)	-0.288* (0.153)	-0.246*** (0.057)	-0.304*** (0.040)	0.433*** (0.071)	0.454*** (0.059)
Deliberative	0.147* (0.084)	0.131 (0.115)	0.065 (0.128)	-0.036 (0.143)	-0.115* (0.062)	-0.108 (0.074)
Age		-0.027*** (0.008)		-0.005** (0.002)		-0.005 (0.005)
Male		-0.072 (0.226)		0.237*** (0.078)		-0.031 (0.070)
Math score		-0.021 (0.042)		-0.026 (0.026)		0.013 (0.049)
30 ≤ Inc < 45		0.155 (0.135)		-0.013 (0.165)		0.315 (0.223)
45 ≤ Inc < 70		0.100 (0.136)		-0.222* (0.126)		0.157*** (0.056)
70 ≤ Inc < 120		-0.016 (0.126)		-0.337*** (0.096)		0.079 (0.064)
Income ≥ 120		-0.176 (0.172)		-0.846 (0.534)		0.521*** (0.054)
Constant		0.351 (0.301)	-0.123*** (0.029)	-0.082 (0.073)	-1.039*** (0.053)	0.055 (0.068)
Experiment design controls?	Yes	Yes	n.a.	n.a.	n.a.	n.a.
Observations	534	486	772	692	772	692

Table 8. Regressions for proportion of cards from “good decks”

Each column presents OLS estimates. The dependent variable in each column is the proportion of cards in each 10-card block an individual drew from a “good deck,” i.e., one with a positive expected return. The independent variables include dummies for being Intuitive or Deliberative thinker. The measure we use is the behavioral decision time measure from each participant’s associated survey (Experiments 1 and 2). The excluded category is “partially deliberative.” Robust standard errors, clustered at the session level, are in parentheses.

	<i>Block of 10 Draws</i>									
	1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th	9 th	10 th
Intuitive	0.08*	0.05	0.06	0.05	0.10**	0.08*	0.05	0.11***	0.12**	0.03
	(0.04)	(0.07)	(0.04)	(0.04)	(0.04)	(0.05)	(0.04)	(0.04)	(0.05)	(0.04)
Deliberative	-0.00	-0.01	0.03	-0.05	-0.02	0.02	0.03	-0.05	0.04	0.06*
	(0.04)	(0.04)	(0.03)	(0.04)	(0.03)	(0.03)	(0.03)	(0.04)	(0.03)	(0.03)
Age	0.00	-0.00	0.00	0.00	0.00	-0.01	-0.01	-0.00	-0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)
Male	0.00	0.08**	-0.03	-0.04	-0.02	-0.01	0.01	0.02	-0.07	-0.04
	(0.03)	(0.03)	(0.04)	(0.03)	(0.03)	(0.03)	(0.04)	(0.03)	(0.04)	(0.03)
Math score	0.01	0.02**	-0.01	0.00	-0.01	0.00	0.01	-0.00	-0.01	-0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)
30 ≤ Inc < 45	-0.01	0.01	0.02	-0.01	-0.03	0.07	0.02	0.06	0.09***	0.06
	(0.03)	(0.04)	(0.03)	(0.04)	(0.03)	(0.04)	(0.06)	(0.05)	(0.03)	(0.05)
45 ≤ Inc < 70	-0.09	-0.02	0.06	-0.03	0.01	0.04	0.02	0.05	0.08*	0.05
	(0.06)	(0.05)	(0.04)	(0.04)	(0.03)	(0.04)	(0.08)	(0.06)	(0.04)	(0.04)
70 ≤ Inc < 120	-0.03	0.11**	0.01	0.04	0.01	0.07*	-0.03	0.07	0.11**	0.11**
	(0.05)	(0.04)	(0.05)	(0.05)	(0.04)	(0.04)	(0.05)	(0.05)	(0.04)	(0.04)
Inc ≥ 120	-0.12	0.03	0.01	-0.01	-0.04	-0.08**	-0.02	-0.11	-0.09**	0.01
	(0.12)	(0.06)	(0.08)	(0.06)	(0.06)	(0.03)	(0.12)	(0.10)	(0.04)	(0.15)
Constant	0.44***	0.30**	0.51**	0.51***	0.62**	0.59***	0.56***	0.59***	0.68**	0.56***
	(0.13)	(0.12)	(0.19)	(0.11)	(0.24)	(0.17)	(0.12)	(0.18)	(0.24)	(0.16)
Observations	143	143	143	143	143	143	143	143	143	143
R-squared	0.05	0.10	0.03	0.07	0.04	0.10	0.04	0.07	0.10	0.05

Table 9. Time to complete first REI section

The dependent variable is the number of seconds a participant took to complete the first half of the REI, which was administered early in the experiment and before any risk- or ambiguity-related questions were asked. “Intuitive” is a dummy that takes the value of one if the average time it took an individual to decide on which color to bet on from the risky urn and from the ambiguous urn in the urn-valuation task was in the bottom 25th percentile in the data. “Deliberative” is a dummy defined analogously but encompassing those whose decision times were in the 75th percentile or above. The excluded category contains those whose decision times were between the 25th and the 75th percentile, who can be thought of as partially deliberative. “Math Score” is each participant’s self-reported score on a standardized math exam given in the final year of high school in Italy. The score theoretically ranges from 0 to 10. “Experimental Design Controls” include dummies for the order in which the two versions of each risk and ambiguity elicitation methods were presented to subjects. The income measure is the participant’s family’s total annual net income from all sources, in thousands of euros. “Experimental design controls” include dummies for the order in which the two versions of each risk and ambiguity elicitation methods were presented to subjects (in experiment 2 they were presented in the same order). Robust standard errors, clustered at the session level in parentheses.

	<i>Experiment 1</i>		<i>Experiment 2</i>	
	(1)	(2)	(3)	(4)
Intuitive	-48.235** (13.259)	-50.882** (12.884)	-36.056 (26.346)	-47.419 (36.512)
Deliberative	88.489*** (13.761)	81.828** (20.684)	68.336** (13.468)	44.856*** (0.793)
Age		1.661 (1.376)		-0.066 (1.866)
Male		-3.383 (7.786)		-12.209 (15.469)
Math score		-4.085*** (0.507)		1.679 (14.221)
30 ≤ Inc < 45		-2.027 (12.745)		-40.828* (13.416)
45 ≤ Inc < 70		-3.586 (6.620)		-23.463 (39.632)
70 ≤ Inc < 120		4.567 (9.797)		0.079 (6.821)
Income ≥ 120		-12.300 (10.425)		-2.859 (34.134)
Constant	180.048*** (8.479)	173.666** (43.335)	251.768*** (8.461)	263.550** (80.565)
R-squared	0.212	0.226	0.014	0.015
Experimental Design Controls	Y	Y	n.a	n.a.
Observations	534	486	772	692

Table 10. Intuitive thinking and market timing

The table shows estimates of the linear probability that the investor sells stocks in month t . *Before* is a dummy=1 if t precedes the collapse of Lehman Brothers; *Intuitive* is a dummy equal to 1 if the investor relies mostly on intuition when making decisions (zero otherwise). *Education* is years of completed education; *Financial literacy* is an index of financial literacy based on answers to a set of quizzes posed to UVCS respondents; *Financial ability* is a self-reported index of ability to make financial decisions (see Guiso and Jappelli, 2010 for a description of the last two indicators); *Financial information* is a measure of the time investors spend collecting financial information. Standard errors are reported in parenthesis. *** significant at 1%; ** significant at 5%.

	(1)	(2)	(3)	(4)	(5)	(6)
<i>Before</i> *intuitive	0.014** (0.005)	0.017** (0.006)	0.017** (0.006)	0.017** (0.006)	0.027** (0.007)	0.026** (0.007)
(1- <i>Before</i>) *intuitive	0.002 (0.007)	0.004 (0.007)	0.004 (0.007)	0.004 (0.007)	0.012 (0.008)	0.011 (0.008)
<i>Before</i>	0.057** (0.002)	0.018 (0.035)	0.021 (0.035)	0.025 (0.036)	0.022 (0.042)	0.032 (0.040)
(1- <i>Before</i>)	0.039** (0.003)	0.002 (0.035)	-0.014 (0.036)	-0.005 (0.037)	-0.003 (0.042)	0.014 (0.040)
Male		-0.010** (0.003)	-0.009** (0.003)	-0.010** (0.003)	-0.014** (0.004)	-0.013** (0.004)
Age		0.000** (0.000)	0.000** (0.000)	0.000** (0.000)	0.000** (0.000)	0.000** (0.000)
Log net wealth 2007		0.001 (0.003)	0.003 (0.003)	0.001 (0.003)	0.001 (0.003)	0.001 (0.003)
<i>Before</i> *education			-0.002** (0.000)			
(1- <i>Before</i>) * education			-0.002** (0.000)			
<i>Before</i> *financial literacy				-0.002 (0.002)		
(1- <i>Before</i>) *financial literacy				0.001 (0.002)		
<i>Before</i> * financial ability					0.002 (0.003)	
(1- <i>Before</i>) * financial ability					0.005 (0.003)	
<i>Before</i> * financial information						-0.002 (0.001)
(1- <i>Before</i>) * financial information						-0.002 (0.002)
R-squared	0.05	0.05	0.05	0.05	0.06	0.06
Observations	21315	20405	20405	20405	14875	14875

Figure 1
Proportion of cards from “good decks,” Iowa card experiment

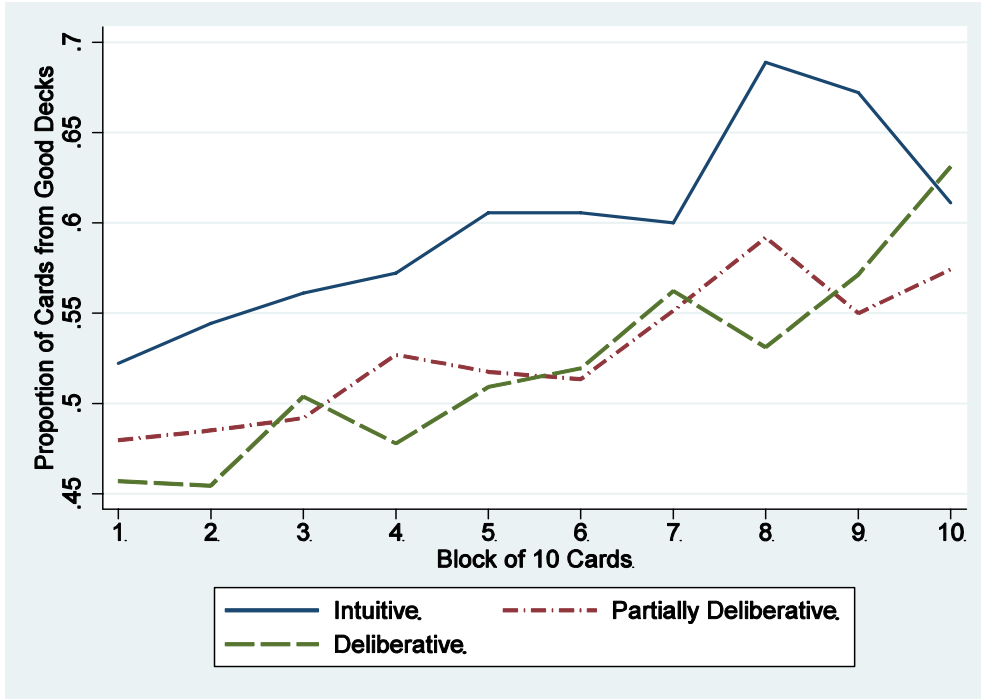
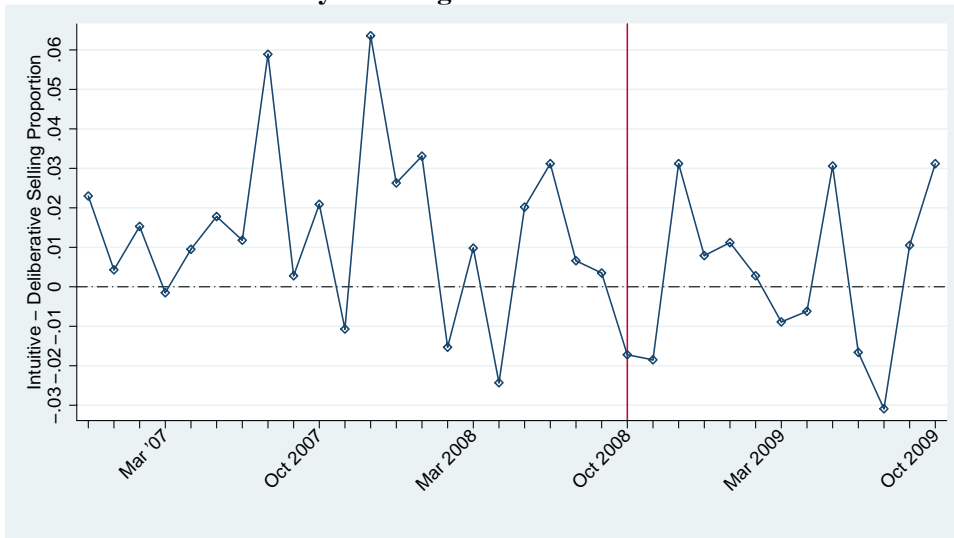


Figure 2
Probability of selling before and after the crisis



Appendix

A.1. The UCS data

The survey data used draw on a sample of Italian retail investors of the Unicredit Group. The Unicredit Clients' Survey (UCS) was conducted between June and September 2007 and elicited detailed financial and demographic information on a sample of 1686 individuals with a checking account in one of the banks of the Unicredit Group. The eligible population of customers excludes customers under 20 and over 80, and customers with assets of less than 10,000 Euros with Unicredit. The sampled population size is around 1.3 million customers. The survey was aimed at acquiring information on the behavior and expectations of Unicredit Group customers and focused on multi-banking, attitude towards saving and investing, financial literacy and propensity for risk, pensions and need for insurance. The sample is stratified according to three criteria: geographical area, city size, financial wealth, and it explicitly over-samples rich clients. In particular, only clients with at least €10,000 of financial wealth at Unicredit at the end of 2006 are included in the sample.

An important feature of the survey is that the sample selection is based on Unicredit individual retail investors. The survey, however, contains also detailed information on the spouse, if present. Financial variables are elicited for both respondents and households. In the paper, demographic variables refer to the household head (even if different from the respondent), and economic variables (real and financial assets) to the household, not to the individual investor. The survey contains detailed information on ownership of real and financial assets, and amounts invested. For real assets, UCS reports separate data on primary residence, investment real estate, land, business wealth, and debt (distinguished between mortgage and other debt). Real asset amounts are elicited without use of bracketing.

The sampling scheme is similar to that of the Bank of Italy Survey of Household Income and Wealth (SHIW). The population is stratified along two criteria: geographical area of residence (North-East, North-West, Central and Southern Italy) and wealth held with Unicredit as of June 30 2006. The sample size is 1,686 customers, of whom 1,580 are from Unicredit Retail Bank, and 106 from Unicredit Private Bank (the upper tier customer bank). The survey was administered between May 1 and September 30 of 2007 by a leading Italian polling agency, which also conducts the SHIW for the Bank of Italy. Most interviewers had substantial experience of administering the SHIW, which is likely to increase the quality of the data. The UCS was piloted in the first quarter of 2007, and the Computer Assisted Personal Interview methodology was employed for all interviews. To overcome some of the problems arising from non-responses, the sample was balanced ex-post with respect to the true distribution of assets, area of residence, city size, gender, age and education of the eligible population.

The questionnaire comprises 9 sections. Sections A and B refer, respectively, to respondent and household demographic and occupation variables. Section C focuses on saving, investment and financial risk. Section D asks detailed questions about financial wealth and portfolio allocation, and Section E enquires about consumer debt and mortgages. By design, Sections A, B, D and E allow a perfect matching with the SHIW questionnaire. Questions on real estate and entrepreneurial activities are included in Section F. Section G contains questions on subjective

expectations, and section H focuses on insurance and private pension funds. The last two sections ask about income and expectations and need for insurance and pension products.

As shown in Table A1, compared with the Italian population, as surveyed by the 2006 Bank of Italy SHIW, Unicredit Group customers are older, more educated, less likely to work in the manufacturing sector, and more likely to live in the North.

Table A1: UCS – SHIW comparison

	<i>UCS</i>	<i>SHIW</i> <i>Highest income earner</i>	<i>SHIW</i> <i>Bank account holder</i>
Gender			
Male	0.69	0.69	0.71
Female	0.31	0.31	0.29
Age			
up to 30	0.04	0.06	0.06
31 to 40	0.18	0.19	0.20
41 to 50	0.22	0.22	0.22
51 to 65	0.36	0.24	0.24
over 65	0.20	0.29	0.27
Education			
elementary school	0.10	0.27	0.22
middle school	0.29	0.36	0.37
high school	0.41	0.27	0.30
university degree	0.20	0.10	0.10
Sector of activity			
Agriculture	0.03	0.03	0.03
Industry	0.13	0.21	0.23
Public Administration	0.19	0.15	0.17
other sector	0.30	0.19	0.20
not employed	0.35	0.40	0.37
Household size			
1 member	0.21	0.25	0.23
2 members	0.29	0.28	0.29
3 members	0.26	0.21	0.22
4 members	0.20	0.18	0.19
5 or more members	0.04	0.07	0.06
Geographical area			
Northern Italy	0.73	0.48	0.52
Central Italy	0.14	0.20	0.21
South and Islands	0.13	0.32	0.27

Note: The table compares sample means of selected demographic variables in the UCS and 2006 SHIW. Means are computed using sample weights.

A2. Experimental Design

A.2.1. Experiment 1

Participants in the experiment were recruited from among students attending one of two universities Rome, Italy. The first—LUISS Guido Carli—is a small private university, while the second, La Sapienza, is the largest public university in Rome with an enrollment of over 100,000 students. Thus, the student population from which we recruit is potentially quite heterogeneous. Invitations to take part in our experiment were sent out via e-mail to a large list of potential experimental participants at both universities. The experiment itself was conducted completely on-line to preserve anonymity and reduce experimenter demand effect. Ten percent of participants were randomly chosen by the computer to be paid their potential earnings from the experiment.

The experiment consisted of several sections, one of which was remunerated, in the following order: (i) 20 questions from the Rational Experiential Inventory (Pacini and Epstein, 1999); (ii) a non-remunerated section on attitudes towards risk, social risk and ambiguity; (iii) a remunerated section eliciting risk and ambiguity preferences (detailed below); (iv) the final 20 questions from the REI; (v) a section collecting participants' demographic characteristics.

When participants reached the remunerated risk and ambiguity section, before seeing any of the constituent questions, they were told that this section—and only this section—would count toward their potential experimental earnings. Specifically, they were informed that one question in the section had already been chosen randomly by the computer to determine their potential experimental earnings so that their decisions could not in any way influence the question chosen. They were told, furthermore, that 10 percent of participants who completed the experiment would be chosen randomly by the computer to be actually paid their potential earnings from the experiment. Potential earnings from the remunerated section of the experiment theoretically ranged from €1 to €38.50 depending on participants' choices and the resolution of uncertainty, so that both potential and actual stakes were reasonably large compared to participants' opportunity costs of participating—i.e., about 20 minutes of their time in total.

In the remunerated section, risk aversion was measured using a procedure due to Holt and Laury (2002) involving two binary lotteries: lottery A and lottery B. Lottery A features a high maximum payoff (38.50 euros) but a low minimum payoff (0.10 euros), while lottery B features a lower maximum payoff but a higher minimum payoff (28.50 euros, and 16.00 euros, respectively). The high payoff in both lotteries occurs with (common) probability, p , while the low payoff occurs with probability $(1-p)$. To obtain a measure of risk aversion, each participant makes a sequence of 10 choices between lotteries A and B where p is increased from 0.1 to 1 in steps of 0.1. The value of p at which a participant switches from the less risky lottery B to the riskier lottery A is our measure of risk aversion: more risk averse agents should switch later in the sequence.

To measure ambiguity aversion we used a two-phase procedure following Halevy (2007). In the first phase of this procedure, two urns are described to participants: one (risky) urn contains 5 red balls and 5 white balls, while the other (ambiguous) urn contains 10 red and white balls. Participants are informed that the computer will choose one ball at random from each of the two urns, and asked sequentially to guess which color ball will be drawn from each of the two urns.

Each correct guess pays €20, while incorrect guesses pay €0. In the second phase of the procedure participants state the minimum amount of money they would accept to give up the right to the earnings from each of the two bets, separately, and are given incentives to report these values truthfully.²⁶ We use the difference in participants' valuations for the two urns as an indicator of ambiguity aversion: those who value the ambiguous urn strictly less are labeled ambiguity averse.

Each participant completed two slightly different versions of both the risk preferences and the ambiguity preferences elicitation mechanisms. The only difference between the versions relates to un-chosen options. In one version participants were told they would know outcomes of un-chosen options, while in another version participants were told they would only learn outcomes directly relevant to their earnings.²⁷ These two versions were conducted because in some models of decision-making under uncertainty this distinction is important, (see, e.g., Loomes and Sugden, 1986), and existing experiments vary in which version is used.²⁸ There were no significant differences in our measures between versions.²⁹ Therefore, to reduce the possible impact of participants' mistakes on our risk and ambiguity aversion measures we incorporate responses from both versions of the risk and ambiguity elicitation mechanisms: for our risk aversion measure, we average across the two versions for each respondent; with respect to ambiguity aversion, we label individuals as ambiguity averse only if they are classified this way by *both* versions of the ambiguity preferences elicitation mechanism.

To address concerns about order effects, we asked the questions in the remunerated section in four different orders: one of the two versions of our risk preferences elicitation procedure always came first, followed by two ambiguity preferences elicitation mechanisms—one of each version—followed by, finally, the remaining version of our risk preferences elicitation procedure. Ideally, we would have liked to have implemented all possible orders of the questions comprising our risk and ambiguity preferences elicitation mechanisms in order to fully address concerns of order effects. While this was not feasible due to the large number of possible question orders, the four orders we implemented should go a long way toward ameliorating order concerns.

²⁶ For each of the two urn-guesses, separately, the procedure is as follows: the computer draws a number between 0 and 20 which can be thought of as a “price.” If this price is higher than the participant's stated minimum willingness-to-accept, the participant receives a payment equal (in euros) to the price but gives up his or her right to the earnings from the urn-guess. Otherwise the participant retains the right to the earnings from his or her urn-guess. It is well-known that this mechanism provides incentives for participants to truthfully state their values for each of the bets irrespective of risk preferences. Since the main concern with this mechanism is that it is relatively complicated, each participant had to pass a short quiz about the procedure immediately before stating their minimum-willingness-to-accept values.

²⁷ For example, in our risk-preferences elicitation mechanism described above, the difference was whether subjects would find out the outcome of lottery A if they chose lottery B, and vice versa.

²⁸ For example, often to placate incredulous participants, experiments are designed to resolve uncertainty using a physical and familiar mechanism, (e.g., flipping a coin). In such a design participants will automatically know the outcomes of all lotteries depending on the coin flip, both chosen and un-chosen. In principle this could be avoided by flipping a separate coin for each outcome depending on uncertainty, independently. This is what we try to mimic here. However, for logistical reasons this is typically not done in experiments using physical randomizing devices.

²⁹ Neither Wilcoxon signed-rank tests of equality of distributions, nor simple t-tests for differences in means indicated any statistically significant differences.

The experiment was conducted in four separate sessions, each session being characterized by the range of dates over which it was conducted, by the population of participants invited, and by variation in design elements such as question order. Session 1 was conducted from November 30 to December 4, 2009. The second session was conducted the following week: from December 7 to December 11. Session 3 occurred about a month later, after the holidays, from January 13 to January 19. The final session was conducted a couple of weeks later, from January 30 to Feb 1, 2010. The first two sessions were conducted in English and only English-speaking LUISS students were invited to participate. The latter two sessions were conducted in Italian and both LUISS and La Sapienza students were invited to participate.

A.2.2. Experiment 2

Our second experiment was conducted on-line, in several sessions, from May to October 2010. Students of La Sapienza University in Rome, Italy were invited to participate from a pre-existing list of potential participants. In total 772 students participated. Ten percent of participants were randomly chosen by the computer to be paid their potential earnings from the experiment.

The design of the experiment was identical to that of Experiment 1, with the exception of the risk and ambiguity aversion measures in the remunerated section. To measure risk aversion, we again used a Holt and Laury procedure. However, this time, participants were simply asked to specify the minimum value of p , the probability of the high-paying outcome, for which they would switch from preferring the low variance outcome (20 euros vs. 16 euros) to the higher variance outcome (38.50 euros vs. 1 euro). This is common implementation of the Holt and Laury procedure which has the advantage of being simple to implement.

To measure ambiguity aversion, instead of the more complicated Halevy procedure, we used a more direct method. This method consisted of two questions. In the first question, two urns were described to participants exactly as in Experiment 1: one non-ambiguous (*Urn 1*, containing 5 red balls and 5 white balls) and one ambiguous (*Urn 2*, containing: 10 red or white balls). It was then explained that one ball would be drawn from one of the two urns and if that ball is red the participant will win €20 and €0 otherwise. Participants had to decide which urn they wanted the ball drawn from. Their options were: Urn 1, Urn 2 or “no preference.” It was made known to the participants that if they chose “no preference” then the computer would select between the two urns randomly, with equal probability, and €0.10 would be added to the earnings from the resulting earnings. This feature ensures that urn preferences are strict. In the second question, participants were asked to consider *exactly* the same two urns and the same lottery, except with the winning ball being white. They faced the same choice set as before. They stated whether they preferred the ball to be extracted from Urn 1, Urn 2, or that they had no preference. Choosing the non-ambiguous urn both times implies the decision maker is ambiguity averse, since there is no single belief about the proportion of red and white balls in the ambiguous urn which would make it *strictly* preferable in both draws. Using the same reasoning, choosing the *ambiguous* urn both times implies the decision maker prefers ambiguity.

A.2.3. The Iowa Card Task Experiment

We invited a random subset of the pool of students who participated in Experiment 1 or Experiment 2 to come to participate in a laboratory experiment conducted at the Einaudi Institute for Economics and Finance in Rome, Italy. In total, 168 students participated in our Iowa Card Task Experiment.

Participants were seated at individual computer workstations and separated by opaque dividers. Each participant was endowed with 2000 points, and it was explained that points were converted into euro at the rate of 200:1. Each participant was then instructed that they would be making a series of draws from (computerized) card decks and that they must keep drawing cards as long as this was an option. They were instructed they should try to make as much money as possible. After these instructions, four card decks appeared on each participant's computer screen, in a single row. Each card deck appeared identical. Clicking on a deck turned a card over, revealing a win and a loss, typically implying a net gain in points but sometimes a net loss.

The decks were pre-programmed so that two were "good" decks which had a positive return of 250 points every 10 draws; two were "bad" decks pre-programmed to yield a negative return of 100 points every 10 draws. The exact sequence of gains and losses for each deck was pre-programmed to be identical to the original Iowa Card Task experiment, so that each participant faced the exact same card decks. The order in which the card decks appeared on-screen was, however, randomized. This eliminates the possibility that, for instance, it was just easier to click on the left-most card deck which just happened to be a "good" deck so that variation in effort would explain a pattern where good decks were selected more frequently.

After a participant had made 100 draws, he or she was informed that the experiment was over and to sit quietly while other participants finished. When all participants had finished, each participant was paid the money he or she had earned from the card task. Because losses were possible on two of the decks, some participants made significantly less than their endowment. No participant, however, ended up earning zero or a negative amount.

