Psychology

Eleventh Edition

Carole Wade

Dominican University of California

Carol Tavris

Maryanne Garry

Victoria University of Wellington

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Avoiding Loss

In general, people try to avoid or minimize the risk of incurring losses when they make decisions. That strategy is rational enough, but people's perceptions of risk are subject to the **framing effect**, the tendency for choices to differ depending on how they are presented. When a choice is framed as the risk of losing something, people will respond more cautiously than when the very *same* choice is framed as a potential gain. They will choose a ticket that has a 1 percent chance of winning a raffle over one that has a 99 percent chance of losing. Or they will rate a condom as effective when they are told it has a 95 percent success rate in protecting against the AIDS virus, but not when they are told it has a 5 percent failure rate—which of course is exactly the same thing (Linville, Fischer, & Fischhoff, 1992).

Suppose you had to choose between two health programs to combat a disease expected to kill 600 people. Which would you prefer: a program that will definitely save 200 people, or one with a one-third probability of saving all 600 people and a two-thirds probability of saving none? (Problem 1 in Figure 9.1 illustrates this choice.) When asked this question, most people, including physicians, say they would prefer the first program. In other words, they reject the riskier though potentially more rewarding solution in favor of a sure gain. However, people will take a risk if they see it as a way to *avoid loss*. Suppose now that you have to choose between a program in which 400 people will definitely die and a program in which there is a one-third probability of nobody dying and a two-thirds probability that all 600 will die. If you think about it, you will see that the alternatives are exactly the same as in the first problem; they are merely worded differently (see Problem 2 in Figure 9.1). Yet this time, most people choose the second solution. They reject risk when they think of the outcome in terms of lives saved, but they accept risk when they think of the outcome in terms of lives lost (Tversky & Kahneman, 1981).

framing effect The tendency for people's choices to be affected by how a choice is presented, or framed, such as whether it is worded in terms of potential losses or gains.

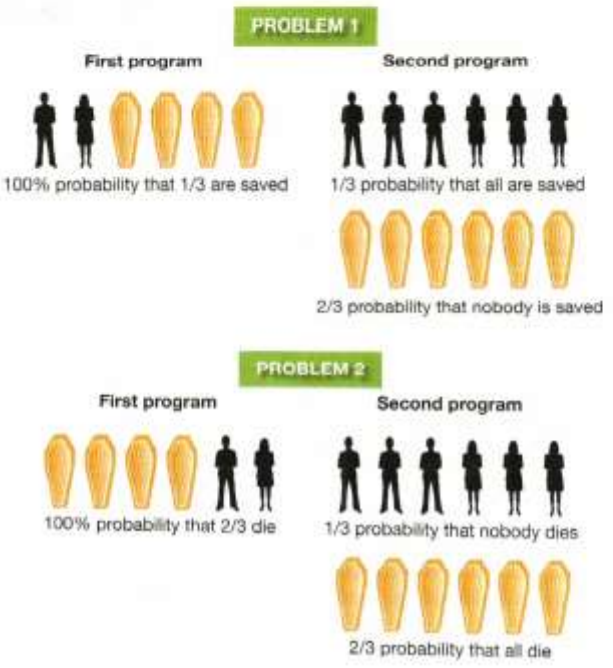

FIGURE 9.1 A Matter of Wording
The decisions we make can depend on how the alternatives are framed. When asked to choose between the two programs in Problem 1, which are described in terms of lives saved, most people choose the first program. When asked to choose between the programs in Problem 2, which are described in terms of lives lost, most people choose the second program. Yet the alternatives in the two problems are actually identical.