Is There a Framing Effect? The Asset Effect in Decision-Making under Risk

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Tversky and Kahneman (1981; Kahneman & Tversky, 2000) postulated that when a decision task is described as "positive" or "life-saving", subjects tend to be risk-averse in their choice; however, when the task is described as "negative" or "life-threatening", subjects tend to be risk-seeking in their choice. Objectively the task remains the same in both cases, nevertheless different descriptions often result in different risk attitudes -- this is known as framing effect. This article asserts that a decision-maker's asset level affects the choice more than the framing of the task does. Two experiments are reported to support this view.

In experiment one an "Asian financial crisis" task was constructed. In Experiment two, Tversky and Kahneman's Asian disease task was adopted for comparison. Both tasks involved two levels of asset (NT$ 6 million versus NT$ 60 billion in the Asian financial crisis task; 600 people versus 6 million people in the Asian disease task). The results of the Asian financial crisis task show that subjects tend to be risk-seeking when the asset level is high, but they tend to become risk-averse when the asset level is low. The Asian disease task reports similar results -- subjects tend to be risk-seeking when the asset level is high, and risk-averse or neutral when the asset level is low. These results suggest that it is the asset level, rather than the framing of the task, which eventually affects the decision when an asset effect (AE) is exposed.

Furthermore, relationships among the framing effect, the isolation effect and the reflection effect (Kahneman & Tversky, 1979) are clarified. The clarification could help experimenters to understand more clearly the potential impact that AE may have on framing. AE indicates that given the same amount of loss, a decision-maker with a higher asset level can take on more risks since the loss can be tolerated better than one with a lower asset level. This suggests that threshold for risk and loss becomes higher when the asset level increases, while tolerance for risk and loss drops as the asset level drops. We can thus predict that those with high asset level tend to be risk-seeking while those with low asset level risk-averse.

A further implication is evidenced by the two experiments conducted -- when the information of the asset levels is manipulated, framing will have a limited impact on the final decision.

Keywords: asset effects, framing effects, isolation effects, prospect theory, invariance axiom.