

Is There an Isolation Effect? Effects of Asset Comparability in Decision-Making under Risk

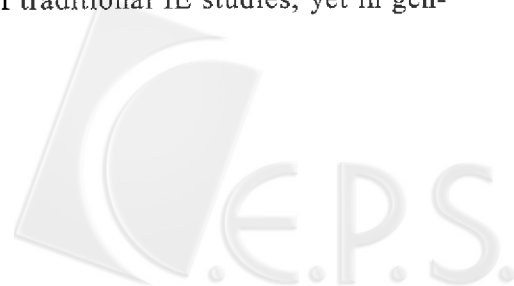
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Kahneman and Tversky (1979, 2000) argued that what influences a decision most are not the final asset but the change of wealth. According to their interpretation, in most cases it is the status quo, rather than the final asset, that serves as the reference point. The isolation effect (IE) occurs as a consequence of information about the asset being isolated from the current situations. Kahneman and Tversky further highlights the importance of the classification of current decision outcomes; when the outcomes are classified as "positive (for example, gains)", decision makers tend to be risk-averse. They become risk-seeking when decision outcomes are classified as "negative (for example, losses)". This article, however, contends that the cause of this differentiated attitude is actually the comparability of the asset. Since isolation arises because subjects oftentimes are not able to classify asset information in choice situations.

Distinction between the relative asset and the absolute asset is then made; asset in the presence of compared stimulus is relative, rather than absolute. Traditional IE experiments present no compared stimulus rendering the asset absolute, as a result the asset can have no impacts on the choice, hence the isolation effects. In the case of compared stimulus which makes asset relative, information about the asset can be classified into meaningful categories such as "less" or "more", which then proceeds to impact the choice.

Two experiments reported in this article have been designed to examine asset comparability. Experiment one uses absolute asset as the control condition (separation tasks), and in the experimental condition comparative information is provided (joint tasks). The separation task presents information about one asset. However in the joint task, information about several assets is presented simultaneously (for example, both NT \$1,000 and NT \$2,000 are introduced). Results show that although the given asset for both tasks is the same, only in the joint task condition could one classify the given asset as "less" or "more". In experiment two, the asset is given in classified terms such as "poor" or "rich". Subjects are predicted to take into consideration such classification and demonstrate risk-averse attitude when the asset is classified as "less" or "poor", while they become risk-seeking when the asset is classified as "more" or "rich". The isolation effect is observed in the separation task condition in experiment one, which replicates the Kahneman and Tversky finding. However isolation effect was not found in the joint task conditions for both Experiment one and Experiment two. Instead, when the asset has been classified as "more" or "rich", subjects showed risk-seeking or neutral attitude, whereas risk-averse or neutral attitude was observed when the asset was classified as "less" or "poor". This result is inconsistent with the findings of traditional IE studies, yet in gen-



eral supports the conception of asset comparability. Findings of this article suggest that Isolation Effect is an exception rather than a norm in decision situations, that is, the isolation effect stands fast only in cases of absolute asset where

compared stimulus is not available.

Keywords: asset comparability, isolation effects, prospect theory, relative asset, loss tolerance

