

## **On the weighting of rare events and the economics of small decisions**

Ido Erev, Technion

Experimental research suggests that decision makers tend to overweight low probability (rare) events when they rely on a description of the possible outcomes, but to underweight low probability events when they rely on personal experience. The current talk summarizes the initial stage of two lines of research designed to evaluate the implications of this pattern.

The first line includes an experimental examination of the two contradicting effects. The results suggest that the two effects do not cancel each other. Rather, it is possible to predict (with models that generalize prospect theory and reinforcement learning) which effect is likely to occur in a particular situation.

The second line of research explores if the understanding of the experimental results can be used to derive practical implications. Five examples are presented that demonstrate that the experimental pattern can shed light on the economics of small decisions: situations in which economic agents repeatedly chose among alternatives with similar expected value.