ECON: Risk and Loss Aversion

Decisions we make that involve risk are often affected by our willingness or unwillingness to lose something. Our tendency to prefer to avoid losses is a cognitive bias called loss aversion. In this game you will make decisions that involve the possibility of gaining points paired with different levels of risk to lose points.

How the Game Works

- Your objective is to end the game with more points than your classmates, but you won't know your classmates scores until everyone has completed the game
- Keep your results secret so you don't influence the decisions of others

Playing the Game

A. You start the game with 100 points
B. For each round, indicate whether you choose to play or sit out by marking an X in the box of your choice
C. If you choose to play, flip a coin
D. If you choose to sit out, proceed to the next round
E. If the coin lands on heads, highlight the amount you gain
F. If it lands on tails, highlight the amount you lose
G. After each round, add or subtract the amount you gained/lost and update your point total in the far right column
H. Once you've completed all ten rounds, calculate and enter your final score at the bottom of the chart
I. Report your score to your teacher so they can determine the winner

Round	Play	Sit Out	Heads	Tails	Points
					100
1			Gain 60	Lose 10	
2			Gain 60	Lose 20	
3			Gain 60	Lose 30	
4			Gain 60	Lose 40	
5			Gain 60	Lose 50	
6			Gain 60	Lose 60	
7			Gain 60	Lose 70	

8			Gain 60	Lose 80	
9			Gain 60	Lose 90	
10			Gain 60	Lose 100	
				Final Score:	**--**

Reflection Questions

1. If a person lost points in the first round, does that mean they made a bad decision to play that round? Why or why not?

2. In this game, the reward is always constant no matter how much risk you take on (gain 60 points). Now think of your personal finances and of the points as being money. What would have to be different in order for you to take on more risk of losing your money as the rounds progress?

3. Imagine a person played the game and chose to sit out every round, ending with the same 100 points they started with. Do you think that's a good strategy? Why or why not?

4. Nora wanted to invest in the stock market for the first time. She didn't want to do anything too risky, so she chose to invest in an index fund, which diversifies across many stocks but can still fluctuate in value based on market conditions. After a few months she was disappointed to see the value of her investment had gone down. Today she told you she sold her investment to avoid losing anymore money and she's no longer interested in investing in the stock market. What would be your advice for Nora? Why?