Ambiguity Aversion (Ellsberg Paradox)



EXPERIENTIAL LEARNING

Duration: 5 minutes

Number of participants: Unlimited

Materials required: Marbles (2 Colors)

Description/Process: This exercise illustrates the effects of ambiguity. After the introduction of the "change" subject, show the audience the marbles you are holding in each hand. After closing your hands around the marbles, ask the audience to "choose the hand they think offers the best chance of selecting a 'Red' marble. Have the audience show by a raise of hands who choose the right versus left hand.

Discussion Questions

Why did you choose the hand with the known # of marbles?

What do you think your chances were with the other hand?

Why do we choose what we know over something that might be better for us?

Facilitator Notes

Ellsberg paradox forms the basis of ambiguity aversion - where we are inclined to ignore or shy away from uncertainty by favoring what is known. We essentially prefer what is known and exhibit this behavior in making choices.

Ambiguity aversion (also known as uncertainty aversion) describes an attitude of preference for known risks over unknown risks. It is demonstrated in the Ellsberg paradox (i.e. that people prefer to bet on an urn with 50 Red and 50 Blue balls, than in one with 100 total balls but where the number of blue or red balls is unknown).

Note that it is not the same as risk aversion, since it is a rejection of types of risk based in part on measures of their certainty, not solely on their magnitude.

This is reflected in the common adage, "better the devil you know than the one you don't".



www.GEPCorp.com Email: Gayla@GEPCorp.com