Acceptable losses: The debatable origins of loss aversion

Abstract

It is often claimed that negative events carry a larger weight than positive events. Loss aversion is the manifestation of this argument in monetary outcomes. In this review we examine early studies of the utility function of gains and losses, and in particular the original evidence for loss aversion reported by Kahneman and Tversky (1979). We suggest that loss aversion proponents have over-interpreted these findings. Specifically, early studies of utility functions have shown that while very large losses are overweighted, smaller losses are often not. Also, the findings of some of these studies have been systematically misrepresented to reflect loss aversion though they did not find it. These findings shed light both on the inability of modern studies to reproduce loss aversion as well as a second literature arguing strongly for it.

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