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“Lottery equivalents”: Reduction of the certainty effect problem in utility assessment.

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Manage. Sci. 32, 56-60 (1986).

This note describes a simple procedure for assessing utility functions which avoids many difficulties of the standard techniques. The conventional methods suffer from at least three drawbacks; they (1) generate utility functions that depend on the probability levels used; (2) chain responses from one question to the next, so that any bias is propagated and even magnified; and (3) change ranges and reference points constantly, introducing range effects and other distortions. Noting the evidence linking the dependence of utility functions on the “certainty effect”, our method; (1) compares lotteries with other lotteries rather than certain amounts; (2) does not “chain” responses; and (3) consistently uses “elementary lotteries” which control for range and reference points. Experimental work supports the proposed procedure.

MSC:

[91B16](#) Utility theory

Cited in **24** Documents

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