PURE RISK

Abstract

We introduce a behavioral notion of risk aversion that is domain-specific and goes beyond what can be captured by deterministic utility.

We say that an agent is more pure risk averse in one domain than another if, holding fixed the utility of prizes across domains, he is more averse to risk in the former. We propose a model that extends expected utility just enough to accommodate such domain-specific risk attitudes.

Domains are subjective and can be identified from choice data. We provide an axiomatic characterization of the model and relate it to source-based models under ambiguity.