

Psychological Expected Utility Theory and Anticipatory Feelings

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Abstract

We extend expected utility theory to situations in which the prizes include feelings about living with uncertainty. We provide two examples to show the impact of these anticipatory feelings on decision making.

Key Words: anticipation, expected utility, gambling.

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1 Introduction

We all experience feelings, such as fear, hopefulness, anxiety, and suspense, that are related to uncertainty about the future. While the importance of such anticipatory emotions has long been recognized in psychological theory, they have not been incorporated into the economic theory of decision making under uncertainty. This is unfortunate, since they may have a profound impact on decision making. An individual may commit resources to future projects to enhance feelings of anticipation. An individual with a nervous disposition may avoid risky situations that trigger excessive anxiety. Conversely, some individuals may seek out risk in order to enhance feelings of

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