Framing, Risky Choice and Cognitive Ability

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This paper identifies the effect a perceived up-front cost has on subsequent risky choice of older Americans. When respondents were faced with outcome alternatives framed in an up-front cost and no up-front cost domain, we observed variation in the respondents’ required outcomes based on the order in which the two domains were presented. We provide evidence that among respondents with lower cognitive ability, losses need not be realized to affect subsequent risky choice, and that an up-front cost lowers the willingness to take risk in a future period. Implications for annuitization demand are discussed.

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