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Edited by Phyllis Schiller Myers
Virginia Commonwealth University

Consumption-Savings Behavior

IRAs and Household Saving, by William G. Gale (Brookings Institution) and John Karl Scholz (University of Wisconsin–Madison)

This paper examines the effects of Individual Retirement Accounts (IRAs) on private and national saving. We construct a formal model of dynamic utility maximization that generates closed-form equations for IRA and other saving. Our empirical estimates indicate that raising the annual IRA contribution limit between 1983 and 1986 would have resulted in little, if any, increase in national saving. Results from sensitivity analysis imply substantially smaller effects on national saving than most previous researchers have estimated. Our results are consistent with new evidence we present indicating considerable potential among IRA holders to shift taxable forms of saving into IRAs. *The American Economic Review,* December 1994, 85(5): 1233-1260. (Reprinted with permission of *The American Economic Review.*)

Utility Theory

A Verbal Protocol Analysis of Choice Under Ambiguity, by Scott Highhouse (Indiana University-Purdue University at Indianapolis)

Einhorn and Hogarth's (1985) ambiguity model was used as a theoretical framework for analyzing the verbal protocols of decision makers faced with a choice between an uncertain option and an ambiguous option. The presentation of the ambiguous option was varied to examine the effect of presenting a point estimate versus an interval estimate on choice. The results of these analyses provided some support for the proposition that ambiguity avoidance is due to an anchoring and adjustment process in which decision makers under-weighed imagined probabilities above an estimate anchor. Ambiguity-avoidance decision makers were more likely to consider pessimistic probabilities of success and ambiguity-seeking decision makers were more likely to consider optimistic probabilities. Contrary to the predictions of previous researchers, the presenta-