FROM THE LIBRARY SHELF

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 presentation of a point estimate led to ambiguity avoidance. Exploratory analyses revealed some themes that may guide future research on choice under ambiguity. *Journal of Economic Psychology,* December 1994, 15(4): 621-635. (Reprinted with permission of North-Holland Publishing Company.)

Risk Perception and Economic Behavior

Modeling Consumer Risk Reduction Preferences from Perceived Loss Data, by M. Greatorex and V. W. Mitchell (Manchester School of Management, Manchester, United Kingdom)

For many years the Theory of Perceived Risk has been used to explain consumers' behaviour. One area of interest is the relationship between loss types and the use of risk relievers. Problems with trying to measure the relationship encourage the use of indirect methods. Data on four loss types and 14 risk relievers were collected for 24 products and services, and a regression model was used to reveal the relationship between loss types and risk relievers. The constants in the equation altered across products, while the slopes remained the same. The evidence suggests that the model used was incompletely specified and that further testing is necessary. *Journal of Economic Psychology,* December 1994, 15(4): 669-685. (Reprinted with permission of North-Holland Publishing Company.)

Principal-Agency Theory

Efficiency of an Information System in an Agency Model, by Son Ku Kim (Hong Kong University of Science and Technology)

Different information systems are compared in terms of their relative efficiencies in an agency model. The mean preserving spread relation between the likelihood ratio distributions derived from the original information systems is found to be sufficient to rank information systems under quite general assumptions about the agent's utility function. Furthermore, it is shown that the mean preserving spread criterion can be applied to a broader set of information systems than Holmstrom's informativeness criterion and Blackwell's theorem. *Econometrica,* January 1995, 63(1): 89-102. (Reprinted with permission of *Econometrica.*)

Health Care Financing

The Incidence of Adverse Medical Outcomes Under Prospective Payment, by David M. Cutler (Harvard University and National Bureau of Economic Research)

This paper examines the effect of prospective payment for hospital care on adverse medical outcomes. In 1983, the federal government replaced its previ-