

SUMMARY

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This summer, as part of the SRO program, I researched gambling for Professor Nicholas Barberis. The purpose of this project was to investigate the roots of gambling behavior, with an eye towards possibly using this research to ground a theory of stock-market investment as gambling. To see whether such a theory would be feasible, I read research gambling in a number of different fields, including not only neoclassical, behavioral, and neuroeconomics, but also work in medicine, sociology, anthropology, psychology, and other fields on gambling the origins of preferences for risk and risk-seeking behavior. In doing this research, I found that not only were there many different theoretical explanations for gambling, but that different forms of gambling seemed to require separate explanations. For example, lottery gambling makes a good deal of sense given the fact that people seem to overweight especially “vivid” outcomes when making decisions. Likewise, racetrack gambling and many games of skill may be explained by the fact the players tend to overweight the effect of their own skill, as well as using a variety of methods to discount past losses. Slot machine gambling, on the other hand, seems to require still another sort of explanation, since it doesn’t seem to fit neatly under either of the two paradigms outlined above. Given these findings, it seems that any theory of investment as gambling would have to make clear what sort of gambling mechanisms underlay investment decisions, in addition to defining how the mechanisms driving gambling behavior work in the first place.

While researching this project, my responsibilities consisted of reading the published literature on a variety of gambling-related topics, summarizing and reviewing this literature, and meeting with Professor Barberis on a weekly basis to share my findings and discuss directions for future research. In the course of the project, I also wrote up several longer pieces in which I provided an overview of my findings, as well as my thoughts on the directions these findings pointed and promising avenues for further investigation.

I learned a good deal in the course of this project. First and foremost, I gained first-hand experience with the process of long-term research, as well as with the use of electronic and hard copy resources available through Yale. In addition, in the course of reading various theories of gambling, I learned a good deal about a prospect theory, behavioral economics, and the emerging field of neuroeconomics. I also had a chance to see the interplay between economics and a variety of other fields, as well as the ways in which discoveries in other disciplines can contribute to the creation of new economic models. Of course, I also learned a great deal about gambling from both theoretical and practical perspectives: in the course of the project, I studied not only the many theories attempting to explain the motives underlying gambling behavior, but also the tactics used by casinos operators to entice people to gamble, the history of modern gambling, and the laws governing gambling in different countries, states, and provinces. Overall, it was an excellent experience, and one that I am very glad I had the opportunity to undertake.