Journal of Management and Economic Studies
2020, 2(4): 188-197 DOI: 10.26677/TR1010.2021.635
Journal Homepage: https://www.jomaes.org

# Does Prospect Theory Explain Investment Decisions: A Comparative Study

**Hilal H. ERDOGAN**
Avrasya University, Department of Business Administration, Turkey
hilal.erdogan@avrasya.edu.tr
http//orcid.org/0000-0003-2249-8850

**Abstract**

The aim of the study is to analyze and compare risk behaviors of different experimental groups on investment decisions by utilizing prospect theory. In this context, investment scenarios standardized by Sullivan (1997) are conducted on corporate managers and undergraduate students through the interviews. The results of the study state that both managers and students exhibited a greater tendency towards risk avoidance on profit conditioned scenarios, and they exhibited risk taking behavior, particularly when they dealt with clear financial losses, supporting the assumptions of prospect theory. However, managers exhibit greater risk taking behavior when both groups take risk, and they also exhibit greater risk avoidance behavior when both groups avoid risk, comparing to students. Furthermore, the differences of confidence level between groups indicate that managers are always more confident in contrast to students regardless of taking or avoiding risk.

**Keywords:** Risk behavior, Investment decisions, Prospect theory, Framing effect.