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Enrico Diecidue*, Jeeva Somasundaram†

Abstract

We present a new behavioral foundation for regret theory. The central axiom of this foundation — trade-off consistency — renders regret theory observable at the individual level and makes our foundation consistent with a recently introduced empirical and quantitative measurement method. Our behavioral foundation allows deriving a continuous regret theory representation and separating utility from regret. The axioms in our behavioral foundation clarify that regret theory minimally deviates from expected utility by relaxing transitivity only.

Keywords Regret theory, Trade-off consistency, Expected utility, Transitivity

JEL Classification D81

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