

PROSPECT THEORY AND TERRORIST CHOICE

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We study terrorist choice from the perspective of economics and psychology. Using RAND-MIPT data about the injuries and fatalities inflicted by different terrorist attack methods, we compute sets of preference orderings over the attack methods using prospect theory. This incorporates reference point dependence, risk seeking in the domain of losses, risk aversion in the domain of gains, non-linear preferences and loss aversion into an analysis of terrorist behaviour. We pay particular attention to the importance of a reference point in the context of ‘copycat’ acts of violence and the influence of loss aversion on the choice of attack method. Our results provide an indication of the types of attack methods that would be chosen by a terrorist whose decision-making process is described by prospect theory and who might, for example, seek to emulate or surpass the actions of a predecessor.

JEL classification codes: D03, D74, H56, K42

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I. Introduction

‘Terrorism studies’ is a multidisciplinary research program encompassing economics (Landes 1978, Sandler et al. 1983, Im et al. 1987, Enders et al. 1992, Enders and Sandler 2002, Frey and Leuchinger 2003, Sandler and Arce 2003, Sandler and Enders 2004, Siqueira and Sandler 2006, Barros, Proenca, Faria and Gil-Alana 2007, Llussa and Tavares 2008, Phillips 2009, Brandt and Sandler 2010, Schneider et al. 2010, Kollias et al. 2011; Freytag et al. 2011, Kis-Katos et al. 2011, Santifort, Sandler and Brandt 2013), psychology (Victoroff 2005), sociology (Turk

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2004), critical studies (Jarvis 2009) and political science (Crenshaw 1981, Pape 2003 and 2005, Cronin 2006, Hoffman 2006 and Abrahms 2006, 2008, 2011). Recent surveys of the economic analysis of terrorism have been undertaken by Intriligator (2010) and Sandler (2011). The theoretical foundations of the economic analysis of terrorist behaviour can be found in the applications of expected utility theory to criminal behaviour in work undertaken by Becker (1968) and Ehrlich (1973).

Kahneman and Tversky (1979; 1992) challenged expected utility theory but their prospect theory has not been widely applied to the analysis of terrorist behaviour. Butler (2007) studies coercive bargaining in the domain of international relations in one of the few formal analyses to use prospect theory in a field that broadly encompasses the types of problems that motivate the present paper. Prospect theory may yield alternative results from the standard models that have been applied in particular cases. This is supported by the finding of important qualifications to the conclusions that are reached when strategic bargaining problems are approached from an expected value maximisation perspective—such as the model presented by Fearon (1995)—rather than a prospect theory perspective (Butler 2007).¹ Part of the justification Butler (2007) provides for his study is the paucity of applications of prospect theory to international conflict and the tendency of existing applications to draw on just one or two prospect theoretical concepts rather than developing a more complete application of the theory.

Similarly, the economic analysis of terrorist behaviour has only occasionally drawn upon prospect theory concepts such as loss aversion and has not fully worked out ‘prospect values’ associated with different terrorist choices and the implications of those values for the outcomes of the terrorist decision-making process. Although the utilisation of prospect theory to generate alternative sets of results that complement those obtained by orthodox approaches represents an important step, the primary advantage of an application of prospect theory to terrorist choice would appear to lie in the development of new insights into those aspects of terrorist behaviour where there is a correspondence between the structure of terrorist decision-making and the structure of prospect theory. For example, if a terrorist knows that a ransom of \$10 million was recently paid for the

¹ O’Neill (2001) presents a discussion of the treatment of risk aversion within international relations theory that contributes the background to this discussion.

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