

Study of Loss Aversion Theory Based on Connected Papers AI

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ABSTRACT

This study aims to analyze loss aversion behavioral bias in the capital market by utilizing artificial intelligence technology. The method used in this study is a literature review, and the literature sources were obtained using Connected Papers AI by entering the keyword "Loss Aversion." Next, several recommended article titles related to the keyword will appear. In this study, the author chose the article title "Behavioral Risk Profiling: Measuring Loss Aversion of Individual Investors" as the main article. Then, Connected Papers AI created a visualization graph of articles that have a strong relationship with the reference article in terms of co-citation and bibliography merging. The author used the articles based on the visualization graph to create a literature review. From the visualization results, it can be seen that research on loss aversion is rooted in decision-making theory under risk, based on the prospect theory framework. aversion in time frame or social conditions.

Keywords: Behavioral Finance; Connected Papers Ai; Loss Aversion; Prospect Theory.

INTRODUCTION

An investor in the capital market is required to make quick and appropriate decisions in his uncertain transactions. A study by Susanto and Fridayani (2022) showed that financial behavior is influenced not only by financial literacy but also by psychological aspects such as behavioral control. This finding is consistent with Prospect Theory's view that financial decisions are often influenced by non-rational psychological factors, including loss aversion. In the field of behavioral finance, the concept of loss aversion has become one of the main pillars in explaining decision-making under uncertainty. Loss aversion refers to the tendency of individuals to feel losses more strongly than the enjoyment gained from equal gains (Kahneman & Tversky, 1979). Loss Aversion is part of the Prospect Theory first introduced by Kahneman and Tversky in 1979, which states that "People tend to make decisions based on potential gains and losses relative to a reference point, rather than on absolute end results, and they show a greater aversion to losses than pleasure in equal gains" (Kahneman & Tversky, 1979). The theory explains how behavioral bias arises in an investor when making decisions regarding the purchase or sale of shares. An investor who has a loss aversion bias tends to hold stocks that fall for too long, because they are afraid of feeling losses, on the other hand, those investors tend to release potential stocks too early because they are worried that the stock will fall again, so that it prevents investors from the maximum potential profit that they may get.

The asymmetry between profit and loss sensitivity has been empirically validated across disciplines, from psychology to finance. This literature review seeks to map the theoretical foundations, empirical findings, and methodological advances around loss avoidance, highlighting key contributors and evolving frameworks. In addition, the review synthesizes connected academic work using a website connected papers.ai bibliometric analysis to identify key research clusters, themes, and theoretical developments, aiming to provide a roadmap for future research.

LITERATURE REVIEW

This study employed a qualitative systematic literature review approach supported by bibliometric visualization using the Connected Papers platform. Rather than collecting primary data, the study analyzed relationships among published scientific articles to identify the theoretical development, influential studies, and emerging research trends concerning loss aversion.

The research procedure consisted of four stages. First, the keyword "Loss Aversion" was entered into the Connected Papers platform to identify relevant publications. Second, the article entitled "Behavioral Risk Profiling: Measuring Loss Aversion of Individual Investors" by Van Dolder and Vandenbroucke (2024) was selected as the seed paper because it represents one of the most recent studies focusing on the empirical measurement of loss aversion. Connected Papers then generated a visualization network based on co-citation and bibliographic coupling relationships among related publications.

The generated network was subsequently analyzed to identify the intellectual structure of loss aversion research. The analysis focused on publication clusters, citation relationships, temporal development, prior works, and derivative works suggested by the Connected Papers platform. Publications identified within the network were reviewed to understand their theoretical contributions, methodological approaches, and research contexts.

To strengthen the literature review, the selected publications were exported and managed using Mendeley Reference Manager. Relevant articles from both the Prior Works and Derivative Works categories were examined and synthesized according to their theoretical contributions and research findings. The synthesis emphasized the evolution of Prospect Theory, the development of loss aversion measurement techniques, and the application of loss aversion across finance, economics, healthcare, and public policy.

The collected literature was analyzed using descriptive qualitative content analysis. Similar studies were grouped into thematic categories, including theoretical foundations, methodological developments, empirical measurements, and interdisciplinary applications. The interpretation of these themes was then used to construct a comprehensive overview of the evolution of loss aversion research and to identify potential directions for future studies.

RESEARCH METHOD

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RESULTS

Connected Papers Visualization

The Connected Papers platform generated a bibliographic network based on the seed article "Behavioral Risk Profiling: Measuring Loss Aversion of Individual Investors" by Van Dolder (2024). The visualization consists of interconnected publications that share strong co-citation and bibliographic coupling relationships, providing an overview of the intellectual structure of loss aversion research.

As shown in Figure 1, the seed article occupies the central position of the network, indicating its role as the primary reference linking both foundational and contemporary studies. The left side of the network contains a dense cluster of classical literature, while the right side contains more recent and specialized studies. This distribution indicates the evolution of loss aversion research from theoretical development toward interdisciplinary applications.

Distribution of Research Clusters

The visualization identifies two dominant research clusters.

The first cluster represents the theoretical foundation of loss aversion and consists primarily of studies by Kahneman and Tversky, Abdellaoui, Attema, Bleichrodt, Blavatsky, and Wakker. These publications are highly interconnected, indicating that they form the core theoretical framework for understanding decision-making under risk.

The second cluster contains contemporary studies focusing on practical applications of loss aversion in areas such as behavioral finance, public policy, ESG investment, consumer behavior, healthcare, and gender differences. These studies show lower interconnectivity than the classical cluster, suggesting increasing diversification of research themes.

Temporal Development of Literature

The Connected Papers visualization also illustrates the chronological development of the field. The earliest publication identified in the network dates back to 1976, while the newest studies were published in 2024. Earlier publications mainly establish theoretical concepts related to decision-making under uncertainty, whereas recent publications increasingly emphasize empirical measurement, behavioral experiments, financial technology, and interdisciplinary applications.

This temporal pattern demonstrates that loss aversion research has gradually shifted from conceptual theory development toward empirical validation and practical implementation across various disciplines.

Prior Work Analysis

The Prior Work feature identified several influential publications that serve as the theoretical foundation of the selected article. These include Prospect Theory (Kahneman & Tversky, 1979), Cumulative Prospect Theory (Tversky & Kahneman, 1992), parameter-free utility elicitation methods, probability weighting models, and reference-dependent preference theory.

Overall, the prior works indicate that contemporary studies on loss aversion are strongly grounded in Prospect Theory while continuously refining measurement methods and behavioral models through experimental economics.

Derivative Work Analysis

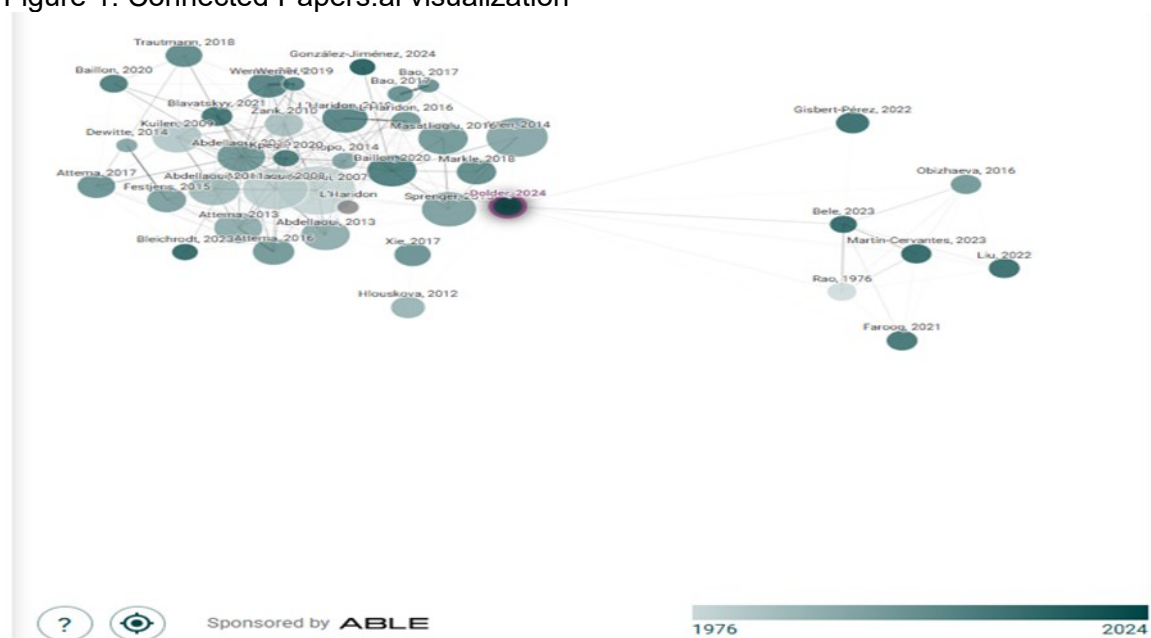
The Derivative Work analysis reveals that recent studies have expanded the application of loss aversion into various domains beyond behavioral finance. These include healthcare decision-making, preventive behavior, public policy, ESG investment, gender differences, probability weighting, and large-scale population surveys.

Most derivative studies seek to improve empirical measurement techniques, investigate contextual factors influencing loss aversion, and examine heterogeneity across individuals and environments. These findings demonstrate that loss aversion has evolved into a multidisciplinary research topic with broad practical implications

DISCUSSION

Aversion", then some recommendations for the title of the paper came out. The author chose the title of the paper "Behavioral Risk Profiling: Measuring Loss Aversion of Individual Investors" (Van Dolder, 2024) as the original paper. The following is a graph displayed by the ai-linked paper by title.

Figure 1. Connected Papers.ai visualization



In the visualization in figure 1 the central point of the network is indicated by a dark purple (with high gradation) node, which in this context is a publication by Dolder, 2024 with the title Behavioral Risk Profiling: Measuring Loss Aversion of Individual Investors. This node represents the main paper analyzed, and serves as a reference point for all research networks related thematically and citeally. In Figure 1, the middle left area is a dense collection of literature that is closely interconnected. It shows the foundational cluster that forms the main theoretical framework of the topic of loss aversion. Included in this group are works by Abdellaoui (2000, 2007, 2013, 2016, 2019, 2020), Attema (2013, 2016, 2017), Bleichrodt (2023), and Blavatsky (2020). These nodes are closely interconnected, suggesting that the literature is widely cited together and forms the paradigmatic core of research in risk preference theory and loss evaluation. The center-right shows a direct connection from Dolder (2024) to several nodes located further away, such as Gisbert-Pérez (2022), Martin-Cervantes (2023), and Liu (2022). This suggests that the main paper (Dolder, 2024) seeks to bridge the old literature with new trends in loss aversion, particularly with interdisciplinary approaches or current empirical contexts.

The color palette shows the year range from 1976 (the lightest color) to 2024 (the darkest color). Rao (1976) is the oldest literature in this network, showing the early roots of the theory of decision-making under uncertainty. Literature with darker colours (2020–2024) is concentrated on the right and centre, reflecting the current of contemporary literature that developed from and contributing to classical studies on the left. This temporal transition indicates that the field of loss aversion is undergoing a progressive theoretical evolution, with a renewed focus on empirical approaches, financial technology, and contextual influences.

From the spatial distribution, two main thematic regions can be identified, namely 1) the left region: describing the theoretical and methodological basis, consisting of normative and experimental research based on prospect theory, such as the work of Kahneman & Tversky, Abdellaoui, and Bleichrodt. 2) Right region: Accommodates more contemporary and applicable studies, such as in the context of gender, policy influence, or market segmentation. The nodes here are more connectionally separate, indicating a diversity of approaches and a wider application domain. The central paper (Dolder, 2024) has a citation trajectory to both sides of the spectrum: both to classical and contemporary studies. This shows its characteristics as a bridging paper that brings together two generations of research.

From the results of the existing visualization, it can be studied that research on loss aversion is rooted in the theory of decision-making under risk, especially through the work of Kahneman and Tversky (1979) who introduced prospect theory. This theory states that individuals evaluate gains and losses relative to reference points, with losses having a greater psychological impact than equivalent gains. This concept was extended in cumulative prospect theory by Tversky and Kahneman (1992) to accommodate non-linear probability weighting. Follow-up research by Abdellaoui (2000, 2007, 2013, 2016, 2019, 2020) emphasizes the measurement of loss aversion parameters experimentally without relying on the assumption of utility function forms, empirically reinforcing the framework of this theory.

Researchers such as Attema, Bleichrodt, and Wakker have contributed to explaining loss aversion from experimental perspectives and time preference models, focusing on how decisions under risk and uncertainty are measured precisely (Attema & Brouwer, 2013; Bleichrodt et al., 2023). Zank (2010) and Blavatskyy (2020) also reviewed how probability weighting can affect the interpretation of loss aversion, as well as proposed a more stable definition of behavior within the framework of cumulative prospect theory. This research strengthens the theoretical validity of loss aversion as a universal phenomenon in economic behavior.

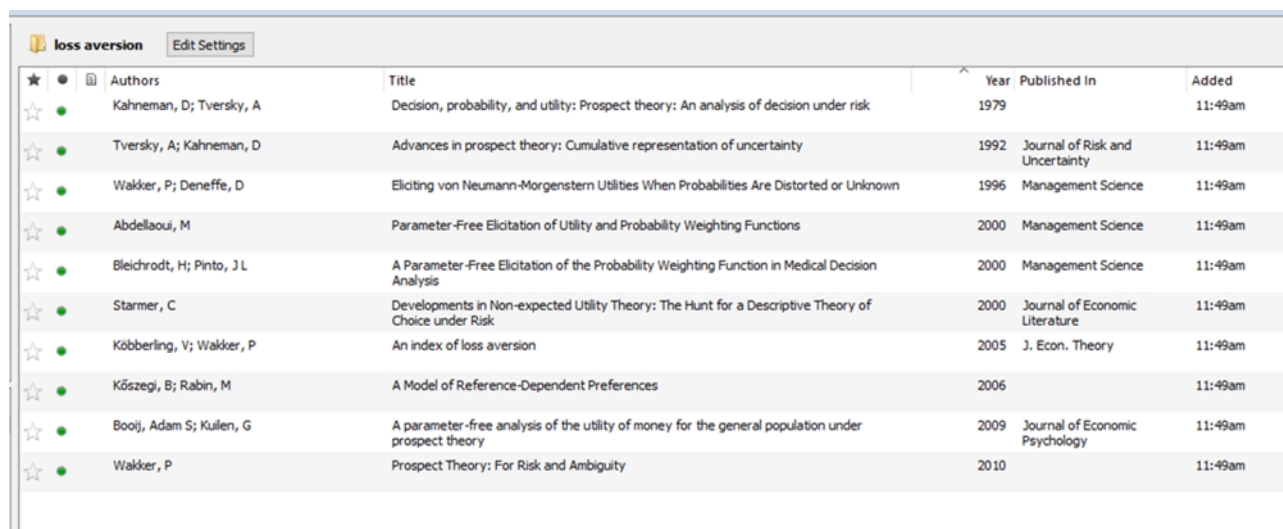
In the last two decades, research has evolved in a more interdisciplinary and contextual direction. Authors such as Dolder (2024) introduced a new approach to the definition of loss aversion that is free of explicit probability, allowing application to conditions of uncertainty. Studies by Martin-Cervantes (2023), Liu (2022), and Gisbert-Pérez (2022) show efforts to integrate loss aversion with the context of public policy, consumer behavior, and the influence of gender and economic stress. This literature contributes to a more dynamic understanding of how loss is perceived in real-life contexts.

Despite the expansion into new topics, the visual map shows a fragmentation in contemporary literature. Some studies such as Obizhaeva (2016), Bele (2023), and Farooq (2021) appear to be less connected to the corpus of classical literature, indicating the need for the unification of conceptual frameworks in order to keep new knowledge integrated with an established theoretical base. The paper by Dolder (2024) serves as a meeting point between two poles of literature: established normative-experimental

research and developing contextual empirical research. This position demonstrates the importance of literature that combines theoretical methodologies with new empirical explorations, as well as opening up new directions in defining loss aversion that is relevant to current decision-making dynamics.

Theoretical Studies Based on Key Literature (Prior Work) that have been downloaded and extracted into the Mendeley citation application are shown in the following figure 2:

Figure 2. Prior Work Connected Papers.ai based on the main paper



★	●	Authors	Title	Year	Published In	Added
☆	●	Kahneman, D; Tversky, A	Decision, probability, and utility: Prospect theory: An analysis of decision under risk	1979		11:49am
☆	●	Tversky, A; Kahneman, D	Advances in prospect theory: Cumulative representation of uncertainty	1992	Journal of Risk and Uncertainty	11:49am
☆	●	Wakker, P; Deneffe, D	Eliciting von Neumann-Morgenstern Utilities When Probabilities Are Distorted or Unknown	1996	Management Science	11:49am
☆	●	Abdellaoui, M	Parameter-Free Elicitation of Utility and Probability Weighting Functions	2000	Management Science	11:49am
☆	●	Bleichrodt, H; Pinto, J L	A Parameter-Free Elicitation of the Probability Weighting Function in Medical Decision Analysis	2000	Management Science	11:49am
☆	●	Starmer, C	Developments in Non-expected Utility Theory: The Hunt for a Descriptive Theory of Choice under Risk	2000	Journal of Economic Literature	11:49am
☆	●	Kobberling, V; Wakker, P	An index of loss aversion	2005	J. Econ. Theory	11:49am
☆	●	Kőszegi, B; Rabin, M	A Model of Reference-Dependent Preferences	2006		11:49am
☆	●	Booij, Adam S; Kullen, G	A parameter-free analysis of the utility of money for the general population under prospect theory	2009	Journal of Economic Psychology	11:49am
☆	●	Wakker, P	Prospect Theory: For Risk and Ambiguity	2010		11:49am

Based on the key literature obtained, the following is a summary of each study:

1. **Decision, Probability, and Utility: Prospect Theory (Tversky & Kahneman, 1979).** A major milestone in the development of behavioral economics, this paper introduces Prospect Theory as an alternative to Expected Utility Theory (EUT). This theory shows that individuals assess outcomes relative to reference points and show that losses have a greater psychological impact than equivalent gains, a phenomenon called loss aversion. In this framework, the value function is concave for profit and convex for loss, and steeper on the side of loss.
2. **Advances in Prospect Theory: Cumulative Representation of Uncertainty (Tversky & Kahneman, 1992).**
 This paper develops a Cumulative Prospect Theory (CPT) that corrects the weaknesses of the initial prospect theory, especially in dealing with small and large probabilities. CPT introduces different cumulative probability weightings for the loss and gain domains, allowing this model to explain anomalies in risk behavior. CPT retains loss aversion as a central element, but acknowledges that preferences are also influenced by the form of the probability weighting function.
3. **Eliciting von Neumann-Morgenstern Utilities (Deneffe et al., 1996).**
 This literature discusses quantitative methods for extracting von Neumann-Morgenstern utilities from individual preferences. This study is relevant in order to compare normative preferences with empirical observations of distorted behaviors such as loss aversion. The elicitation method is important because it paves the way for parameter estimation in various behavioral models, including Prospect Theory.
4. **Parameter-Free Elicitation of Utility and Probability Weighting (Abdellaoui, 2000)**
 This paper proposes an experimental approach without explicit parameters (parameter-free) to measure utility functions and probability weighting separately. This approach avoids dependence on assumed forms of utility functions, and provides a purely

behavioral observation method. This is especially important for loss aversion studies that want to avoid biased modeling.

5. **A Parameter-Free Elicitation of the Gain-Loss Utility Function (Pinto et al., 2000)**
 Following on from the parameter-free approach, this article focuses on estimating utility functions in the profit and loss domains separately. This is important because loss aversion theoretically reflects the asymmetry of value between the two domains. This study makes a methodological contribution to verifying that losses are more undesirable than comparable gains, without assuming a form of value function.
6. **Developments in Non-Expected Utility Theory: The Hunt for a Descriptive Theory of Choice under Risk (Starmer, 2000)**
 This paper is a critical literature review of various non-EUT decision-making theories, including Prospect Theory, Rank-Dependent Utility, and Regret Theory. Starmer assesses the advantages and limitations of these models in terms of descriptive and predictive, making this literature an important conceptual map for researchers who want to understand the position of loss aversion in a broader context than a single model.
7. **An Index of Loss Aversion (Wakker et al., 2005)**
 In this paper, Wakker compiles quantitative indicators of loss aversion that can be measured consistently in experiments. This index is designed to clarify when a preference for loss outweighs a preference for profit, taking into account the utility function and probability weighting explicitly. This article offers an important behavioral evaluation tool for researchers who want to compare the strength of loss aversion across populations or situations.
8. **A Model of Reference-Dependent Preferences (Rabin, 2006)**
 Rabin developed the theory of Reference-Dependent Preferences which combines reference-based utility and sensitivity to loss. This model emphasizes the importance of expectations as a reference point and illustrates how a mismatch between actual and expected results can trigger a loss aversion response. This study is relevant in linking loss aversion behavior to psychological mechanisms such as adaptation and expectations.
9. **A Parameter-Free Analysis of the Utility of Money (Kuilen, 2009)**
 This paper reinforces the argument about parameter-free elicitation, this time in the context of the value of money. The study shows that even in the monetary domain, loss aversion remains consistent when evaluated using a parameter-free method. This is an important support for the generalization of loss aversion in various practical economic contexts.
10. **Prospect Theory: For Risk and Ambiguity (Wakker, 2010)**
 This book presents a systematic explanation of how Prospect Theory can be applied in conditions of risk and ambiguity. Wakker emphasizes the importance of outcome-based utility functions, as well as the role of subjective probability in assessing choices. This is the primary reference literature for researchers who wish to explore loss aversion in the context of uncertainty or uncertainty, such as in policymaking or speculative markets.

Figure 3. Derrivatif Work Connected Papers.ai based on the main paper

CONNECTED PAPERS		Behavioral Risk Profiling: Measuring Loss Aversion of Individual Investors		Share	Foll
Behavioral Risk Profiling: Measuring Loss Aversion of Individual Investors		Prior works		Derivative works	
Title	Last author	Year	Citations	Graph references	
Meta-Analysis of Empirical Estimates of Loss-Aversion	Colin Camerer	2020	102	10	
(In)Consistency of Beliefs and Attitudes Under Uncertainty: Every Cloud has a Silver Lining	Sonia Mun	2024	1	6	
Prospect theory in multiple price list experiments: further insights on behaviour in the loss domain	M. Brunette	2022	4	6	
QALYs without bias? Nonparametric correction of time trade-off and standard gamble weights based on prospect theory	A. Attema	2017	37	6	
The prevention puzzle	H. Bleichrodt	2022	5	5	
Loss Aversion or Lack of Trust: Why Does Loss Framing Work to Encourage Preventative Health Behaviors?	Dean Yang	2022	4	5	
Probability Weighting and the Newsvendor Problem: Theory and Evidence	Shanshan Guo	2021	0	5	
Quantifying loss aversion: Evidence from a UK population survey	D. Wright	2019	18	5	
Gender effects for loss aversion: Yes, no, maybe?	Ferdinand M. Vieider	2019	31	5	
The Corrective Approach: Policy Implications of Recent Developments in QALY Measurement Based on Prospect Theory.	A. Attema	2019	14	5	

The series of research that emerged as derivative works shows how the concept of loss aversion has developed into a cross-disciplinary foundation in behavioral economics, health, decision psychology, and public policy. The development began with the influential work *Meta-Analysis of Empirical Estimates of Loss-Aversion* by Colin Camerer (2020), which synthesized dozens of empirical findings to provide a comprehensive picture of how much an individual's tendency is to avoid losses compared to the pursuit of profit. This meta-analysis is an important basis for future research because it offers a more stable comparative measure, allowing researchers to understand variations in loss aversion based on the experimental context, study design, and individual characteristics. Sonia Mun's (2024) research on the *Inconsistency of Beliefs and Attitudes Under Uncertainty* highlights the dynamics of inconsistency of beliefs under conditions of uncertainty, as well as how cognitive biases, including loss aversion, appear differently when individuals are faced with ambiguous information. The study of M. Brunette (2022) offers an in-depth exploration through multiple price list experiments that reveal decision behavior in the loss domain in a more granular manner. These studies show an effort to refine the loss aversion measure with a richer experimental design and be able to capture previously hidden behavioral variations.

Significant contributions also come from the literature linking loss aversion to the context of health policy and public decision-making. For example, A. Attema (2017, 2019) developed a prospect theory-based approach to correct bias in the measurement of Quality-Adjusted Life Years (QALYs), an important indicator for health policy evaluation. By making nonparametric corrections to the time trade-off and standard gamble methods, this study shows how systematic loss avoidance can distort people's assessment of health benefits. At the same time, studies like *Loss Aversion or Lack of Trust?* by Dean Yang (2022) extends the application of this concept to the realm of health prevention, explaining that the effectiveness of loss framing in encouraging preventive behavior is not only determined by an aversion to loss, but also by the individual's level of trust in the party delivering the message.

Other literature raises the complexity of risk behavior through complementary concepts such as probability weighting, as discussed in Shanshan Guo's (2021) paper. The study combines an understanding of how individuals assess probability with a tendency to avoid losses, thus providing a more holistic picture of the decision-making process under risk. Similar efforts were seen in a population survey by D. Wright (2019), which sought to measure loss aversion on a large scale in British society, generating empirical data that can be used for comparative analysis across social and economic groups.

Some studies have also highlighted demographic differences in loss aversion tendencies. For example, Ferdinand M. Vieider (2019) examined the potential gender differences in response to loss, showing that this phenomenon is not universal and can vary based on social and methodological factors. These findings enrich the discourse that loss aversion is not just a single psychological variable, but rather a multifaceted phenomenon influenced by context, individual characteristics, experimental structures, and social norms.

All of the literature reviewed in this list forms the conceptual and methodological foundation for recent loss aversion studies. The literature not only formulates and reinforces theoretical assumptions, but also provides experimental measurement tools and approaches that can be reused or developed in a variety of advanced research. In addition, from the data from the existing connected ai papers, it illustrates that the concept of loss aversion has developed from a basic theory to a multidisciplinary analytical framework. From strengthening empirical foundations, improving measurement methods, evaluating policy implications, to understanding variation between individuals, all of this work shows that loss aversion continues to be the center of attention in understanding how humans make decisions in conditions full of uncertainty and risk. This collective narrative confirms that research on risk behavior will continue to be relevant, as economic, health, and social challenges in the modern era become increasingly complex.

CONCLUSION

Loss aversion remains a central concept in behavioral economics, with profound implications in policy design, market regulation, and individual decision-making. From its emergence in Prospect Theory to modern developments involving empirical calibration and ambiguity modeling, the literature has developed extensively and complexly. This review maps these developments conceptually and visually, providing a structured picture for future researchers. Future research is suggested to develop a more stable and consistent method of measuring loss aversion, given the variation in results in the various experimental designs used in previous studies. In addition, the expansion of research contexts, such as on modern investment decisions, health behaviors, and public policy. The research suggestions will provide a more comprehensive understanding of how sensitivity to loss works in real-world situations.

Subsequent research can also integrate psychological factors such as emotional intelligence, trust level, and probability weighting in a more holistic model. This effort is important to explain the mechanisms by which loss avoidance arises differently between individuals. In addition, longitudinal studies and the use of cross-cultural samples are highly recommended to look at the stability of loss aversion over time. Finally, research can be directed at the development of interventions or treatments that are able to reduce the impact of loss bias, such as simulation-based training or debiasing strategies that have been experimentally tested

ACKNOWLEDGMENT

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DECLARATION OF CONFLICTING INTERESTS

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