Prospect theory and presidential elections: Two cases from Yugoslavia and Serbia

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**Abstract**

Why do presidents in semi-presidential regimes sometimes call early elections? Is the behavior of incumbent presidents different from the behavior of presidential contenders when the former do not need to run for office but face the loss of parliamentary majority in a semi-presidential system? Prospect theory claims that agents make risky choices when facing a loss. Consequently, if incumbent presidents face a loss of majority in the parliament, they will call for early election to try to shore up or salvage the majority. To provide empirical evidence supporting this claim, prospect theory has been applied to the two presidential elections in Yugoslavia and Serbia in which two incumbent presidents, Slobodan Milošević (2000) and Boris Tadić (2012), had lost early presidential elections. The expected contribution of the paper is to deepen our understanding of how semi-presidential regimes resolve the problem of temporal rigidity and offer novel empirical data in support of the application of prospect theory in political science.

**1. Introduction**

The Yugoslav President Slobodan Milošević and the Serbian President Boris Tadić are known for calling early presidential elections which they lost in September 2000 and May 2012, respectively. Both called them willingly, without any pressure from the opposition or any other political agent. As an incumbent, Milošević had ten months left in the office. Tadić had nine months. So why did they do it?

Here I offer an explanation from the perspective of the prospect theory, which was developed in cognitive psychology (Kahneman and Tversky, 1979). My claim is that both incumbents took such a risky move because they wanted to avoid loss. The loss was, however, not about the presidential office, but rather about the parliamentary majority, which they used to command in the assembly prior to the early elections. I claim that both Milošević and Tadić called early elections in the hope that their candidacy would help their political parties not to lose the majority in the parliament.

Prospect theory is known to be the major contemporary rival to the rational choice explanations (Kahneman, 2012; Elster, 2015; Hastie and Dawes, 2010; Thaler, 2015). According to the rational choice theory, in order to be able to explain an event or a decision it is necessary to take into account marginal benefits and costs of each of them (Little, 1991). In this sense, Milošević and Tadić’s decisions to go to early elections would be expressed as a series of rational calculations that would compare the expected utility from their preferences to remain at the current posts, help their parties not to lose the majority in the assembly, and the number of months that remains before their terms expire. (Under this analysis, each remaining month would
be assigned smaller marginal utility as the terms approach the end, so that the last month of the presidency is worth less than the one before the last, and even worth less than the second before the last and so on.) Rational choice is, however, rather neglectful of psychological traits of a person. Maybe Milošević and Tadić were simply persons who, in contrast to other presidents in similar political regimes, were bolder and more prone to risk-taking. This inclination to risk is much better captured by the prospect theory, which, as I will argue in section 8, does not necessarily apply to all presidential agents.

The situation that I have just described is known in prospect theory as loss aversion (Kahneman and Tversky, 1979). I deploy prospect theory to explain why these two presidents called the early elections. In Section 2 a description is given of how prospect theory and loss aversion was, thus far, used in political science and political economy. Sections 3 justifies the case selection, and section 4 describes some institutional features relevant for understanding the semi-presidential system. Section 5 contains methodological considerations on prospect theory by identifying its key concepts that are relevant for decision-making of incumbent presidents. Sections 6 and 7 provide empirical details with which to test prospect theory on decision-making of the two presidential candidates from Yugoslavia and Serbia. Section 8 concludes by looking at the contributions to comparative politics. It also gives some answers as to why the loss aversion approach cannot be applied to similar cases. Section 9 looks at the general limits of prospect theory in political science based on the findings of this paper's analysis.

2. Political science, prospect theory, and the study of semi-presidentialism

Chapter 28 of Daniel Kahneman’s Thinking, fast and slow opens with the following statement: “The concept of loss aversion is certainly the most significant contribution of psychology to behavioral economics.” I do agree but care to add: the concept of loss aversion is surely a very significant contribution of psychology to political science, too. Indeed, there have been already several books and papers that applied the concept of loss aversion to electoral behavior (Quattrone and Tversky, 1988; Levy, 2003; Bendor et al., 2011), international relations (McDermott, 2001, 2004), security studies (Verendel, 2008; Fuhrmann and Early, 2008), and foreign policy decision making (Mintz and DeRouen, 2010; He and Feng, 2013).

In comparative politics and political economy, one finds an increasing number of studies that use prospect theory since Mercer (2005) reviewed the existing literature and claimed that there were not many. A significant amount of work in this area has been done by Kurt Wayland who applied prospect theory to the economic reforms in Latin America (Weyland, 2004, 2007). Fatty (2006) studied why voters bother to vote in mid-term elections in the US. Barbara Vis (2009, 2010) has shown at what point cabinets are prepared to do more radical and unpopular economic reforms, and Annette Steinacker (2006) explains the cabinets’ preparedness to deal with negative rather than positive externalities. Several other studies that have used prospect theory in political economy of decision making are also worth mentioning (Somer-Topcu, 2009; Baccaro and Simoni, 2008).

The studies that used prospect theory were mainly not related to the studies of semi-presidentialism, which is a subject-matter of this paper. I have found only one article that could, along with this paper, be classified into the category of decision-making of presidential candidates. Namely, David O’Connell wrote an excellent piece on the application of prospect theory to presidential campaign (O’Connell, 2011). He has looked into the behavior of four presidential candidates—Kennedy and Carter, and Reagan and Bush—and deployed prospect theory in order to explain why did they make a particular type of choices that looked seemingly puzzling.

O’Connell’s focus was on the campaign issues. My focus is somewhat different. Specifically, I apply prospect theory to presidential campaign by looking into why the two incumbents — Slobodan Milošević and Boris Tadić — ran for the presidential office even though they did not need to. My central claim is that they called early presidential elections in 2000 and 2012, respectively, in order to help their parties avoid possible electoral disaster. They have framed the situation as a loss, which made them accept a risky gamble, which they lost.

In its essence, prospect theory is seen as the main opponent of the rational choice theory in today’s social science (Elster, 2015; Hastie and Dawes, 2010; Thaler, 2015). Most studies of semi-presidentialism used the rational choice model accompanied with some game theory (Neto and Strøm, 2006; Schleiter and Morgan-Jones, 2009a, 2009b; 2010). Neto and Strøm (2006) claimed that presidents in semi-presidential regimes play a significant role in appointing the ministers, meaning that stronger presidents increase the number of non-partisan ministers in the cabinet. In a similar fashion, Schleiter and Morgan-Jones (2009a; 2009b; 2010) use the principal-agent model to demonstrate that the strength of presidents in semi-presidential regimes is associated with the increase of affecting the composition of the cabinet. My aim is somewhat different from the above research: rather than studying how presidents directly influence the composition of the cabinet, I analyze how an incumbent president decides to run for elections in order to influence the majority in the parliament.

As mentioned above, I employ prospect theory. Yet, I do not want to neglect the application of rational choice in the study of semi-presidentialism. I only claim that there are cases for which prospect theory, as the main opponent of rational choice theory, offers a more nuanced explanation.

Let me summarize the expected contributions of this paper. The paper applies and confirms one of the central prospect theory’s thesis that individuals make risky choices when considering relative changes to status quo. But the analysis also

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1 Federal Republic of Yugoslavia was formed in 1992 after the communist Yugoslavia broke apart. It consisted of two federal units: Serbia and Montenegro. Montenegro seceded in 2006, which was the end of the Federal Yugoslavia.
shows where and why prospect theory does not work. In section 8 I consider several similar cases in which incumbent presidents have not shorten their terms and call early elections to help their parties. Based on the analysis, in section 9 some critical inferences regarding prospect theory itself are offered.

The paper will expand our knowledge of the prospect theory’s applicability to the field of social sciences other than behavioral economics (Thaler, 2015). The hope is to enrich political science by bringing prospect theory into comparative politics and the political economy of electoral and presidential decision-making. Decisions are the essential component of both national and international politics. To study how and why they are made is thus of paramount importance to both political science and public policy analysis.

More importantly, the article is expected to contribute to studying semi-presidentialism in Europe and postcommunist societies. I want to deepen our understanding of how semi-presidentialism works (Elgie, 2011; Elgie et al., 2011) and add the Serbian (Yugoslav) cases to the research on semi-presidentialism. Thus far, there has been extensive research on semi-presidentialism in Western Europe (Elgie, 1999) and the Caucasus and Central Asia (Elgie and Moestrup, 2016). However the study of semi-presidentialism in the former European communist countries (Elgie and Moestrup, 2008a,b) has omitted both the Serbian and the Yugoslav cases.2 The aim of this paper is to fill this gap.

3. Case selection

I selected the Yugoslav and the Serbian cases for an obvious reason. In the analysis of presidential elections in the semi-presidential regimes in Europe, I found no other instance in which incumbent presidents deliberately called for early elections intending to run at the same time as the parliamentary elections in an effort to help their political party (coalition) avoid electoral loss. In other words, I found in European political praxis no other case that could be explained by loss aversion.

Consider the data from Table 1. Column 2 shows how many times parliamentary and presidential elections took place on the same day (so-called concurrent elections) in the 19 European countries that have established semi-presidentialism after 1945 or 1990, respectively.3 Some of these concurrent elections took place simultaneously merely by coincidence because the first multiparty elections, after the breakdown of communism, took place on the very same day.

For instance, in Macedonia, the 1994 presidential and parliamentary elections took place on the same day but only because the first, initial post-communist elections of 1990 took place on the same day. Romania has held five concurrent elections

<table>
<thead>
<tr>
<th>Country</th>
<th>Concurrent Elections</th>
<th>Consequence of Shortening</th>
<th>May be explained by loss aversion</th>
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<tbody>
<tr>
<td>Austria</td>
<td>0</td>
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<tr>
<td>Belarus</td>
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<td>Finland</td>
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<td>Macedonia</td>
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<td>Montenegro</td>
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<td>Poland</td>
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<td>Serbia</td>
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<td>Yugoslavia</td>
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</tr>
</tbody>
</table>

a Column 2 = number of concurrent elections.
b Column 3 = number of concurrent elections which took place as a consequence of deliberate early elections.
Source: Composed by the author
after the breakdown of the Ceaușescu regime—in 1990, 1992, 1996, 2000, and 2004. But this was again a consequence of the mere fact that the initial presidential and parliamentary elections of 1990 took place on the same day. Since the term of the Romanian president was four years rather than the usual five, the next four presidential and legislative elections (1992—2004) were concurrent. After the Romanian constitution was changed and the presidential term was extended to five years, no concurrent elections in Romania took place.

Column 3 indicates how many times the concurrent elections took place as a consequence of early elections (that is, deliberate action of an incumbent president or a sitting parliament to shorten their term and set the presidential and parliamentary elections for the same day). But this still does not mean that all such cases can be explained by loss aversion. Indeed, I found only two examples—Yugoslavia in 2000 and Serbia in 2012—that qualify for loss aversion (column 4).

Let me now explain why not all the cases from column 3 can be considered as instances of loss aversion. In December 1992, Serbia’s and Montenegro’s presidents and parliaments shortened their terms so that presidential and parliamentary elections could take place on the same day. But in both cases, this was not a consequence of strategic thinking, but rather of the opposition’s pressure to hold new elections in Serbia, and the fact that the initial elections from 1990 in Montenegro were held under the communist Yugoslavia’s constitutional arrangement. (Montenegro held a referendum on remaining in Yugoslavia in March 1992, and adopted the first post-communist constitution in August 1992.)

Something similar happened in Slovenia and Croatia in 1992. In Slovenia, the first multiparty presidential and parliamentary elections took place on the same day in 1990, but were held under the old communist institutional design. This was the reason why both the president and the parliament decided to shorten their terms and call early elections in 1992 for the same day.4

The same happened in Croatia in 1992. The first post-communist parliamentary elections took place in April 1990, but again under the old communist rules. Then, the new Sabor (Croat parliament) elected Franjo Tudman for president one month later. However, since Tudman, who was extremely popular at the time, wanted popular rather than parliamentary legitimacy, the Sabor adopted a new constitution in December 1990, and then decided to shorten its term and hold early parliamentary elections together with presidential elections in 1992.

In 2014, the term of the Macedonian parliament was shortened because the Democratic Union for Integration (DUI), which was a junior partner to the VMRO-DPMNE in the ruling coalition, withdrew from the Gruevski cabinet. The parliamentary elections took place at the same time with the presidential elections on April 13, but the DUI was against the VMRO-DPMNE candidate. Hence, the 2014 Macedonian concurrent elections were not the product of strategic thinking, but rather of a cabinet breakup.

Whenever concurrent elections are a product of a coincidence, pressure of the opposition, or internal breakup of the cabinet, I do not consider them to be valid instances of loss aversion. In contrast, when the elections are a product of strategic thinking, we should look into empirical details to establish if they are instances of loss aversion. This will be done in sections 6 and 7.

4. Main features of semi-presidentialism

This section introduces the readers to the major characteristics and mechanisms of semi-presidential systems, which hopefully bring us to the conclusion derived in section 8, where I explicate to what extent the findings about Milošević’s and Tadić’s behavior could expand our knowledge on semi-presidential regimes.

Semi-presidentialism can be distinguished from both presidentialism and parliamentarism. Presidentialism implies a directly elected executive who names the cabinet. The president who at the same time is the head of state and the head of government, serves a fixed term, and also has some law-making authority (Elgie, 2011: 2; Shugart and Carey, 1992: 19). The president’s cabinet is composed of mere associates or advisers rather than ministers (Lijphart, 2012, 107). Therefore, the president’s behavior is not influenced by strategic calculations related to parliamentary elections because the president’s post and the composition of the cabinet do not depend on parliamentary elections. Under parliamentarism (as in Hungary, Germany, or Italy), presidents are usually ceremonial figures elected by the assembly (and not by popular ballot) having no authority over minister appointments and/or dismissal of the cabinet, and even less so over policy issues. Ceremonial presidents are unlikely to involve themselves in the policy process, or even in politics itself (Schleiter and Morgan-Jones, 2009b: 670). Premiers and cabinets are responsible to the parliament, rather than to the president (Elgie, 2011: 2).

Semi-presidentialism, in contrast, is a system wherein the president is elected by a popular ballot but the cabinet is (at least formally) responsible to the parliament (Elgie, 1999: 13; 2011, 22; Elgie and Moestrup, 2008a,b: 4; Elgie, 2011: 21). Although the head of the cabinet answers to the parliamentary majority (as in the UK) and the president does not appoint the ministers (as in the US system), in a semi-presidential system relations between the president and the head of the cabinet are not that clear.

In some instances of semi-presidentialism (for example, France, Russia, Austria or Finland), the influences of the president on the cabinet are considerable (Nousiainen, 2001). Typically, in such systems, which Shugart and Carey call president-parliamentarism (1992, 24), presidents have the authority to appoint or dismiss cabinet members, and to clash with the

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4 It happened only after the new constitution was adopted in December 1991.
assembly over cabinet’s policies.\textsuperscript{5} In some other cases, (for example, Poland, Bulgaria), the president mainly stays out of the cabinet’s composition, especially when the president does not belong to the party that constitutes the majority in the parliament. Shugart and Carey call this type premier-presidentialism (1992, 23). However, sometimes even in premier-presidential regimes, presidents can interfere in cabinet’s composition and even in their public policies. The strength of presidents in such instances derive from the fact that they come from the same majority that controls the parliament (therefore, they have the majority in the cabinet too), or the fact that parliaments and cabinets are too weak\textsuperscript{6} (Protsyk, 2005). These were the examples of President Slobodan Milošević (1990–2000) and Boris Tadić (2008–2012) in Serbia. Yet, there are instances of premier-presidentialism, such as Serbia (2012–2016), or Croatia (2011–2016), in which the president belongs to the same parliamentary majority but nonetheless does not interfere too heavily in the daily politics and public policy affairs.

5. Methodology of prospect theory and political decision-making

Prospect theory is applicable to various types of decision-making. Here, it is applied to political decision-making of incumbent presidential candidates who, under semi-presidential regime, have to decide whether to run for re-elections in the situation when they already control the majority in the assembly. I claim that presidential candidates, too, are risk-averse when they face gains, and risk-seeking when they confront losses. The claim is based on Kahneman and Tversky’s insight that loss hurts 2.5 times more than equivalent gain (Kahneman and Tversky, 1979, 268–9). I define several key elements of prospect theory: domain, reference point, and risk-seeking behavior—by contextualizing them into the decision-making system of an incumbent presidential candidate.

We found the ground for this claim in Kahneman’s work:

Many of the options we face in life are “mixed”: there is a risk of loss and an opportunity for gain, and we must decide whether to accept the gamble or reject it. Investors who evaluate a start-up, lawyers who wonder whether to file a lawsuit, wartime generals who consider an offensive, and politicians who must decide whether to run for office all face the possibilities of victory or defeat. (2012, 283)

Imagine an incumbent president in semi-presidential system who controls the majority in the assembly. As already explained in section 4, in semi-presidential systems, as opposed to the US or Russian system, presidents are not chiefs of the executive, although they can sometimes influence the composition of the cabinet (Duverger, 1980; Schleiter and Morgan-Jones, 2009a, 2009b; 2009c, 2010). The Yugoslav and Serbian presidents are even weaker than the French president: they have no policy prerogatives and consequently can pursue policies only if they have majority in the parliament that controls the cabinet (Vladisavljević, 2003, 2010; Orlović, 2008: 106). They fit the concept of premier-presidentialism (Shugart and Carey, 1992; Elgie, 2011).

Let’s suppose now that the parliamentary elections are due in one month, and that the president’s term ends just in a year. Over the past four years, the incumbent and their party failed to deliver on many promises which they gave during the previous electoral campaign. The latest polls suggest that both the president and their party face a decline in popularity. The president’s party will almost certainly lose the majority in the assembly and is more likely to go into the opposition after the next parliamentary elections.

Obviously, the president operates in the domain of losses. But should they care? The party may lose majority, but the president’s position is safe. Even if the party is defeated, the president still has eleven months to go. Rational incumbent presidents should accept an option that would give them a higher chance of keeping the presidency.

But things are not that simple. If the incumbents see a loss in the future, what exactly they think they would lose? According to prospect theory, agents do not evaluate the options with respect to the utility of losses, but rather with respect to their reference point. To see that, consider a choice between a gamble and a sure thing (Kahneman, 2012: 275).

**Gamble:** equal chances to end up owning 1 or 4 million

**Sure thing:** own 2 million for sure.

The decision to accept or reject this gamble really depends on the reference point (in this case it is current state of wealth). If a person currently owns 1 million, or she will be happy to accept sure thing. If, in contrast, one has 4 million, he or she might find the gamble more attractive. This is because the 1 and 4 million, respectively, constitute two different reference points.

Imagine now a presidential contender who holds neither presidency, nor the majority in the parliament, and this is a contender’s reference point. If he or she wins the presidency for sure, but not a majority in the assembly, the person is a winner. But how is this appealing to an incumbent president who already controls the majority in the parliament?

\textsuperscript{5} Shugart and Carey avoid the term semi-presidentialism (1992, 23) and believe that Duverger made confusion when introduced it (Duverger, 1980). They use the name premier-presidentialism to express a milder version of semi-presidentialism (where presidents have less authority), and president-parliamentarism to express a somewhat stronger version of semi-presidentialism (where they have more authority). In recent works, they concede that both these types are the instances of semi-presidentialism (Shugart, 2005; Shugart and Carey, 2010).

\textsuperscript{6} In Bulgaria, prior to Ivan Kostov’s cabinet (1997–2001), the average longevity of the cabinet was about one year (Andreev, 2008, 41).
Assume that the incumbent’s advisers suggest there is a slight chance that, due to a synergy effect, a parallel holding of the parliamentary and presidential elections might provide both—the majority in the assembly and the presidency. This clearly changes the reference point: if the incumbent believes that he or she could save the parliamentary majority, this becomes an asset the one may lose. But to make this happen the contender has to run for president in which case the presidency is also becoming an asset that may be lost. Therefore, the reference point is now both—the presidency and the parliamentary majority.

With different reference point, the perspective of an incumbent president may change dramatically. From prospect theory, we know that agents want to avoid losses. But we also know that when people see loss as almost certain, they are willing to risk even larger loss if there is a slight chance that the loss will be avoided. Therefore, when faced with sure losses that imply a loss value of 1 (in ordinal measures), agents are willing to behave in a risky manner that could cause the loss valued at 1 + x or 1x, provided x > 0. This is known as upper right outcome of the four-fold pattern designed by Kahneman and Tversky (Kahneman, 2012, 310–321). Thus Kahneman assumes

Many unfortunate human situations unfold in the top right cell. This is where people who face very bad options take desperate gambles, accepting a high probability of making things worse in exchange for a small hope of avoiding a large loss. Risk taking of this kind often turns manageable failures into disasters. The thought of accepting the large sure loss is too painful, and the hope of complete relief too enticing, to make the sensible decision that it is time to cut one’s losses. This is where businesses that are losing ground to a superior technology waste their remaining assets in futile attempts to catch up. Because defeat is so difficult to accept, the losing side in wars often fights long past the point at which the victory of the other side is certain, and only a matter of time (Kahneman, 2012, 318–9). Under the rational choice theory, an incumbent president who believes that his action has a slim chance to succeed in preventing the loss of parliamentary majority will be unlikely to call early presidential election along with the parliamentary ones. Rational estimation of risk will simply put them off. Suppose A stands for action (running), and NA for non-action (not running). One needs to receive 51 per cent of the votes for the president and parliamentary seats to keep both the presidency and the parliament. But if probabilities are rather low (say, only 10%), the utility of acting, U(A), will be lower than the utility of not-acting, U(NA), in which keeping the presidency is 100% guaranteed.

\[
U(A) = 51 \times 0.1 + 51 \times 0.1 < U(NA) = 51 \times 0.1 + 51 \times 100
\]

U(A) < U(NA)

In contrast, under prospect theory a greater value is assigned to gambling since the agents believe there is a chance to win both things. The equation, therefore, looks like this:

\[
U(A) = 51 \times 100 + 51 \times 100 > U(NA) = 51 \times 0.1 + 51 \times 100
\]

U(A) > U(NA)

To conclude, when incumbent president operates in the domain of losses, and when the loss is the majority in the assembly, they will seek risky behavior in order to avoid the loss. The next two examples from Yugoslavia and Serbia, will show how prospect theory could be used to explain such a risky behavior.

6. Yugoslavia: Slobodan Milošević and the presidential elections of 2000

The Yugoslav Assembly elected Slobodan Milošević (1942–2006) for the President of Yugoslavia in July 1997. He was eligible for reelection in July 2001. However, the elections for the Yugoslav parliament were due in September 2000, that is, ten months before Milosevic’s term would end. In the period 1996–2000, Milosevic had been enjoying support of a minimal winning coalition in the Yugoslav assembly. The cabinet consisted of three parties: Socialist Party of Serbia (SPS), Yugoslav United Left (JUL), and Socialist-People Party of Montenegro (SNP CG) that together controlled 52% of the parliamentary seats (Table 2). The polls from the mid-2000, however, suggested that his coalition was facing declining popularity in comparison with the coalition of the Democratic opposition of Serbia (DOS), which was composed of 18 opposition parties. In the summer of 2000 the election forecasts were predicting that the cabinet preferred by Milosevic might not secure the majority in the next parliament.

If Milosevic had remained inactive (NA), he could have lost the majority in the parliament but would have kept his presidency. He might have been concerned for his position since, at the time, Yugoslav president was not elected by a popular ballot, but rather by the parliamentary majority (Constitution of Yugoslavia (1992), art. 97(7)). However, the assembly could remove Yugoslav presidents before their mandate expired only if they violated the constitution. Provided Milosevic did not violate it, he could have stayed in office until his term was completed, that is, as long as July 2001. In the meantime, he could have

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7 A parallel holding of presidential and parliamentary elections (so-called concurrent elections) is typically a consequence of the belief that “the presidential elections exert a strong pull on the assembly elections”, and that a greater visibility of the presidential candidate in the electoral race can help president’s party (or coalition) get more votes (Shugart and Carey, 1992, 260, 237).

8 Before that, he was elected twice for the president of Serbia (a federal unit of Yugoslavia) in 1990 and 1992. His mandate as the Serbian president expired in 1997. Since he could not run for the third time for the Serbian president, he made the Yugoslav assembly elect him as a Yugoslav President.
have waited to see the outcome of the September 24 parliamentary elections and tried to affect the coalition bargaining that would produce another supportive cabinet. Therefore, not-running (NA) might have produced what Milošević preferred. This is actually what happened in Bulgaria in 2005 and Romania in 2009—presidents Parvanov and Băsescu did not resign earlier to run in parallel with parliamentary elections but rather helped their parties to compose winning majorities in the parliaments in 2004 and 2008, respectively.

Actually, most people thought that exactly this scenario would happen in Yugoslavia. Yet, Milošević unexpectedly called an early presidential elections that would take place on the same day as parliamentary elections—on September 24, and had even changed the Yugoslav constitution to make sure he was going to be elected by the popular ballot. According to his close allies, he surprised not only the general public and the opposition, but his own party as well.10

The public opinion surveys from mid-2000 suggested that Milošević and his party were losing popularity. A typical rational choice explanation for Milošević’s decision was given by Bunce and Wolchik. They claim that Milošević feared yet another of severe fuel shortages and believed that he would catch the opposition by surprise, since the opposition was rather divided in early summer of 2000 (Bunce and Wolchik, 2011, 87). But my explanation emphasizes the fact that Milošević obviously believed he operated in the domain of loss. Hence, he faced the choice: either he will not act (NA; remain president) and likely lose the majority in the parliament, or he will act (A; call parallel presidential elections) to try to help his coalition retain the majority in the assembly. His point of reference was, therefore, both the presidency and the majority in the parliament: he wanted to avoid losing either of them. Fig. 1 represents Milošević’s decision tree. Milošević faced two options: NA—not acting (remaining in the office), and A—acting (running in early elections). Since he decided to call an early election and run, and given his reference point (keeping both the presidency and the majority in the parliament), he must have thought that option NA (not acting) is principally bad for him.11 Option NA (left panel on Fig. 1), contained two outcomes:

• (1) keeping both the presidency and the majority – low probability;
• (2) keeping the presidency but losing the majority – high probability.

Now, since we know for a fact that Milošević avoided option NA, he must have thought that outcome 2 is more likely than outcome 1. In other words, we must assume that Milošević assigned a low probability to outcome 1 and a high probability to outcome 2. Otherwise, given his preference to keep the presidency and the majority, he would not have avoided outcome 2.

What about Milošević’s option A? This option contained two outcomes to which Milošević assigned different probabilities:

• (3) keeping both the presidency and the majority – high chances;
• (4) losing both the presidency and the majority – low chances.

Option A was riskier than option NA in that it involved an all-or-nothing outcome. If the variance of outcomes is greater, the choice was riskier: Milošević could get everything (outcome 3), but he can also lose everything (outcome 4). Option NA was less risky because the worst that could happen to Milošević, if he preferred NA, was to only lose a majority in the parliament.

But how do we know that Milošević believed the outcome 3 was more probable than outcome 4? By his revealed preference: Milošević had selected option A—he acted. He must have thought that outcome 3 is likely since he chose option A, although this option was generally more risky than option NA. Otherwise, he, given his preference not to lose the presidency or the majority, would have avoided this option.

Why did Milošević believe he can help his party? Because he believed he was more popular than his party. Recall Shugart and Cary’s claim—the visibility of presidential candidates may help their parties (coalitions) to get more votes (Shugart and

---

9 The nature of the 1992 Yugoslav constitution was that all critical decisions were made by the consensus of the Serbian and Montenegrin Governments. Yet, this change was fait accompli. The Government of Montenegro did not do anything about it (Darmanović, 2015, 21).

10 We find an empirical support to this claim in a documentary titled “The Final Showdown” (2010). Several Milošević’s close allies who talked about the event that preceded the September elections claim that nobody around Milošević knew that he would run for president ten months before his mandate expired. In other words, Milošević made this decision in a narrow circle, probably under the influence of his wife. One of the allies, Ljubisa Ristić, explicitly claimed that Milošević thought running for president on an early elections would help his party avoid an electoral disaster. More on the film: http://www.vreme.com/cms/view.php?id=953753 (Accessed: July 15, 2016).

11 Or at least worse than option A.

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Table 2
Percentage of seats in the Yugoslav parliament in 1996.

<table>
<thead>
<tr>
<th>Electoral year</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPS-JUL</td>
<td>46.3</td>
</tr>
<tr>
<td>SN CG</td>
<td>5.7</td>
</tr>
<tr>
<td>DOS*</td>
<td>15.9</td>
</tr>
</tbody>
</table>

The results of other parliamentary parties irrelevant for the analysis, are omitted.

* The parties that form the DOS coalition ran under different name in 1996.

He had run for president in parallel with the Socialist Party of Serbia (SPS) twice—in 1990 and 1992, and indeed both times won more votes than the SPS, which he headed. In 1990, the SPS won 2.3 million votes, and Milošević won 3.2 million votes. In 1992, the SPS won 1.3 million votes, and Milošević won 2.5 million votes (Goati, 2001, 209–222). Given such history, it was only natural to expect that Milošević’s parallel participation would boost the electoral popularity of the SPS and its coalition partners.

Milošević’s decision to run for president at the same time with the parliamentary elections turned out to be a disaster. Both elections took place on September 24. Milošević lost to his contender Vojislav Koštunica in the first round by 50%:37%.

However, an interesting thing happened in the parliamentary elections: the parties that used to make up the winning coalition in 1996–2000 won the majority again (Table 3). But this time Milošević was not able to put them together. The reason was that Milošević’s loss signaled to the median parliamentary agent to support a different coalition. Since Yugoslavia was a multi-party system, the parliamentary coalitions were made by more than one party with the prominent role of the median party in the assembly (Mueller, 2003). In this case, the median party was the Socialist People Party of Montenegro (SNP CG). This party was, together with SPS and JUL, in the coalition that supported Milošević in 1996–2000. But as we know from the median voter theory (Downs, 1957; Shepsle, 2010), the median agent is the king-maker; it can make coalition with two opposing camps. As shown in Fig. 2 the outcome of the 2000 parliamentary election was such that SNP CG could make two different coalitions: either the one with the SPS-JUL, or the other with the DOS.

SNP CG spent four years in the governing coalition with SPS-JUL (left-hand side of Fig. 2). However, when on October 6 Milošević conceded his electoral defeat, it switched sides, thus making a coalition with the DOS (right-hand side of Fig. 2). If Milošević only had not ran and lost, he could have kept both—his presidency and parliamentary majority. At least, for the following ten months.

We still do not know for sure why the SNP CG switched sides after October 6, and made a cabinet with the DOS on November 4. But it is possible that the very fact that Milošević ran and lost contributed to this decision of the SNP CG leadership. In this way, Milošević really gambled and lost everything—parliamentary majority and his presidency, as prospect theory predicted.

Table 3

<table>
<thead>
<tr>
<th>Electoral year</th>
<th>1996</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPS-JUL</td>
<td>46.3</td>
<td>31.8</td>
</tr>
<tr>
<td>SNP CG</td>
<td>5.7</td>
<td>20.2</td>
</tr>
<tr>
<td>DOS</td>
<td>15.9</td>
<td>42.0</td>
</tr>
</tbody>
</table>

The results of other parliamentary parties irrelevant for the analysis, are omitted.


Fig. 1. Incumbent president decision tree.

Sources: Figure one is the author’s own hypothetical example. Parties’ positions in Figures two and three are author’s own deliberations based on diverse parties’ public statements regarding their preparedness to form coalitions.
Boris Tadić was in the exactly same situation. He won the Serbian presidency in February 2008, and his party won parliamentary majority in May 2008. From 2008 to 2012, Tadić controlled a tiny majority of 51% of the seats in the Serbian Assembly. Tadić himself was the president of the largest party in the cabinet—the Democratic Party, and the cabinet was consisted of the Democratic Party (DS), the Socialist Party of Serbia-led coalition (SPS), the United Regions of Serbia (URS), and the Hungarian coalition (Table 4).

The winning coalition was made possible by the choice of the Serbian Socialist Party (SPS) that was the median agent after the 2008 parliamentary elections. After several months of negotiations, the SPS finally decided to form a cabinet with the DS, rather than with SRS.12

The DS-SPS cabinet held together for the next four years (2008–2012), whereas the term of the Serbian president was supposed to last five. The upcoming parliamentary elections were to be held in May 2012, but the next presidential election in February 2013, nine months after the parliamentary elections. Just like in 2000, everyone thought that the May parliamentary elections would be the only elections that would take place. Yet, on April 5, Tadić tendered his resignation, ten months before the end of his term, with the explanation that he “shortened his term in order to pursue more vigorous policies in the future when he is reelected”. The presidential elections were to take place on May 6, in parallel with the parliamentary elections.

Boris Tadić faced the choice situation presented in Fig. 1. He could have not acted (NA), thus keeping the presidency but running a risk of losing the parliamentary majority, or he could have acted (A), thus trying to keep both — the presidency and parliamentary majority. Since he acted, he must have believed, just like Milošević had 12 years ago, that option 3 has higher chances.

The first round of presidential elections produced no winner (25%:25%) (Table 5).13 Fourteen days later in the runoff, Nikolić received slightly more votes (49.54%) than Tadić (47.31%), and Tadić was out of office.

At the same time, results of the May 6 parliamentary elections were favorable to the Tadić-led Democratic Party. Data in Table 6 show that Tadić could have put together the same cabinet made of DS, URS, SPS, and the ethnic Hungarian coalition, which would have commanded the support of 51.6% majority in the Serbian Assembly. This coalition would support a similar cabinet and Tadić might have stood more chances for reelection in 2013.

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12 Most popular politicians splintered off from the SRS after this electoral defeat and formed the Serbian Progressive Party (SNS) that will appear in the SRS’s stead on Table 5. After the 2008 breakup, the SRS sank below the electoral threshold and became politically irrelevant until 2015 when its leader Vojislav Seselj returned from the Hague.

13 Serbian presidents are elected by the popular ballot. The elections are decided in the first round only if one of the candidates receives over 50% of the ballots. If not, elections turned into runoff elections—the winner is the one who in the second run receives more votes than the other candidate.
Once more, the role of the median agent was critical (Fig. 3). At this time it was again the SPS-led coalition. In 2008, the SPS-led coalition supported the DS-led coalition after two-months of negotiation to elect a new cabinet. In 2012, the SPS decided to support a different coalition and formed a cabinet with the SPP and URS (other possible coalition on Fig. 3). Just like in the case of Milošević/C20 sevi/c, we do not know for sure why the SPS switched sides in July 2012 and made a cabinet with the SNS. But it is possible that the very fact that Tadić/C19c ran and lost made the SPS leadership change the partner. Be that as it may, Tadić gambled and lost everything—parliamentary majority and his presidency, as prospect theory predicted.

8. Putting the findings in context — relevance for comparative politics

The phenomenon of calling early elections occurs frequently in parliamentary democracies (Lupia and Strøm, 1995; Smith, 1996, 2009; Strøm and Swindle, 2002), but it is not common in presidential systems. Do these two examples suggest that semi-presidentialism is a different form of government from parliamentarism and pure presidentialism? Several studies have strongly suggested that it is (Shugart and Carey, 1992; Shugart, 2005; Elgie, 1999; Schleiter and Morgan-Jones, 2009c). Yet, a number of studies argued that the difference is only phenomenal, and that semi-presidentialism has no different effect on public policies when compared to parliamentarism or presidentialism (Eaton, 2000; Tsebelis, 2002).

The discussion from sections 6 and 7 suggests that semi-presidential systems differ from both parliamentarisms and presidentialism in giving different sort of incentives to the incumbent president for participation in elections. In semi-presidentialism, presidents usually have “quite considerable powers” (Duverger, 1980, 166), and can influence the cabinet’s public policy. Yet, presidents in a semi-presidential system always, up to a point, share power with prime-ministers and their cabinets (Sartori, 1997, 131). This means that the semi-presidential system implies both—a powerful president and a

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14 My discussion here remains within the principal-agent model (Schleiter and Morgan-Jones, 2009a, 2009b; 2009c, 2010), wherein the president is one of the two principals who can influence the formation of the cabinet.

15 For an extensive review of president’s prerogatives in public policy see Elgie and Moestrup’s volume on semi-presidentialism in Central and Eastern Europe (Elgie and Moestrup, 2008a,b).
powerful prime-minister (Elgie, 2011: 2). With several European exceptions, such as Russia, Finland or France, presidents in semi-presidential systems are legally weak presidents, even if they are elected by popular ballot (Bulgaria, Slovakia, Slovenia, Serbia, Croatia, Macedonia, Poland, Romania). Constitutionally, the executive power in semi-presidentialism is usually in the hands of the cabinet rather than in the hands of the president, and the power of the cabinet legally stems from the parliament (section 4). The presidential power does not derive from the constitutional prerogatives but rather from the fact that the presidents control the majority in the parliament, provided the president is at the same time the head of the most dominant party in the cabinet (Dowding and Dumont, 2009: 7). So, when presidents have the majority in parliament, it is easy to influence the cabinet’s policy affairs and even to select a premier who will be obedient to presidents (for instance, Milošević in 1990–2000, Tadić in 2008–2012, or Tudman in 1990–2000). However when this majority is lost, it is much harder for such presidents to retain the impact on the public affairs.

Therefore, the president’s move of calling early presidential elections actually tries to resolve the dilemma of temporal rigidity, which is a frequent problem in semi-presidential regimes (Shugart and Carey, 1992: 28, 51). Since semi-presidential systems give no guarantee that president must control a majority of seats, and given that the constitution does not prescribe a harmony in the timing of elections, a president’s term in office may become uneasy when the president loses majority in the parliament. If incumbent presidents’ political party (or coalition) under semi-presidential institutional design is faced with the loss of majority in the parliament, presidents may shorten their term (leave the office before the term legally expires), and go for an early election at the same time as the parliamentary elections in order to help their party (coalition) keep the majority in the parliament. This, may however result in the premature loss of incumbency. Granted, no president in the presidential system likes to have a hostile parliament, but since the presidential system gives the executive power solely to the president, presidents in such systems tend to lose less if their party loses parliamentary majority. They might lose the parliament but the executive power remains with them. In contrast, in semi-presidentialism, a declining popularity of the ruling party might mean the loss of both the legislative and the executive power. This is, perhaps, why the tendency of presidents in semi-presidential systems to call early elections to salvage the majority in the parliament could sometimes be more pronounced.

Does this mean that presidents in semi-presidentialism frequently call early elections? As argued in section 3 (Table 1), in 65 years of semi-presidentialism in the 19 European countries, we could observe only six concurrent elections out of which only two cases can qualify as instances of loss aversion. So why do we not find instances of early elections more often in semi-presidentialism, and why such cases are not explained by loss aversion?

Before I answer this question, let me briefly consider the role of generalization and models in the social sciences. One of the major findings of this paper is that loss aversion could be applied to the decision-making of political agents, too. If faced with a loss, political agents will be, due to the effect of loss aversion, more likely to take up a risky gamble with high chances of losing everything. I hope that the examples of Slobodan Milošević and Boris Tadić effectively confirm the concept of loss aversion in politics (sections 6 and 7). However, I do not want to generalize, and apply the usual caveats about the confirmation bias (Taleb, 2007: 51–61). I do not claim that loss aversion is universally valid, nor I suggest that every time we observe someone in the position of Milošević and Tadić we can expect them to act like Milošević and Tadić. To state such a claim, we must first look into empirical circumstances in which political agents make decisions.

The claim that decision-makers will make risky choices when facing a loss holds only under certain assumptions. Under different assumptions, we get different theoretical results. For example, in a research on the role of capital inflow in a developing economy, it is easy to fall prey to a conclusion that freeing capital flows helps the economy grow. But this is not always true. If the economy’s investible funds are missing, the free flow of capital will help. If, however, taxes are high, it will not (Rodrik and Subramanian, 2009; Rodrik, 2015: 17). Similarly, what does happen when the government imposes price controls on a certain industry? Again, we cannot give a straightforward answer to this question before we look at the assumptions. If the market is competitive, price control will make firms cut their supply. But if the market is monopolistic, a moderate price ceiling will make the monopolistic firm increase the output (Rodrik, 2015: 28).

A similar idea was advanced by Jon Elster (1999, 2007; 2015) We, Elster claims, cannot talk about universal laws in the social sciences but rather about mechanisms. Mechanisms exist whenever we have the same cause that can lead to two totally opposite outcomes. For example, when a person is a child of an alcoholic, will this child grow up to be an alcoholic or a teetotaller? It depends on whether the mechanism of conformism (do what your parents did), or anti-conformism (do the opposite of what your parents did) prevails. If a person goes on a vacation, will he or she spend it by carrying on to work (spillover effect), or will he/she use her time in a relaxed manner (compensation effect)? (Elster, 2015: 28)? If parliamentary elections are called, will the incumbent president in the semi-presidential system shorten his mandate to run parallel with his party (loss aversion effect), or will he remain in the office and try to help build a winning coalition after the elections are done from his office (risk-aversion effect)? We really need to look into the details to be able to explain which effect will prevail.

Let me consider several examples from the postcommunist Europe that are similar to the ones examined in sections 6 and 7, but in which the incumbent presidents did not shorten their terms to avoid loss. As said in section 3, I found no empirical evidence of loss aversion with incumbent presidents in other European semi-presidential regimes. Actually, a closer look (Table 1) shows that in a large majority of the cases of the European semi-presidentialism, parliamentary and presidential elections took place at different times (different year but different day). When they did take place at the same time it was either a coincidence (Romania, 1990–2004, Macedonia in 1994, Serbia in 1997), or these were the initial elections in post-communist countries (1990 in Montenegro, Romania, Slovenia, Croatia, and Serbia). The elections do not get in sync...
even when it appears economically rational to do so. For example, French parliamentary elections in 2002, 2007, and 2012 took place only less than a month after the presidential elections.

But why had other countries’ incumbent presidents never used the opportunity to act (A) when they had one, but instead remained inactive (NA)? A possible answer is suggested in section 5 where I have demonstrated that an NA option means that incumbent presidents did not want to risk their position, since they framed the situation as a win, rather than a loss. Consider first the example of Montenegro. In the 2006 parliamentary elections, the majority was won by the Democratic Party of Socialists (DPS). It was the same party which won previous parliamentary elections in 2002. (Actually, the DPS was the only post-communist party that has never lost elections since the initial elections of 1990 in Montenegro. The DPS has been in office for 29 years (1990–2019) without interruption.) President Vujanović, from the DPS, was elected in 2003, but did not prefer to shorten his term to support his party in 2006. It might mean that Vujanović did not frame the 2006 parliamentary elections as a loss: he simply did not think the DPS will lose the elections. Recall, when decision-makers think they face gains, they are risk-averse, and the likelihood to gamble with the incumbency is small. Hence, to him, the utility of not acting was obviously larger than utility of acting, \( U(A) < U(NA) \). He waited out 16 months and was reelected in April 2008.

Similar situation happened in Bulgaria in 2005. Georgi Parvanov, from the Bulgarian Socialist Party (BSP), was elected as a president in 2001. He was a popular leader and his early candidacy could have helped his party. (He was reelected in October 2006.) Yet, he did not want to shorten his term in June 2005, when parliamentary elections took place (he had 16 months to go). He most likely believed his party will win without him, which is what had actually happened when the Coalition for Bulgaria (of which the BSP was a member) won parliamentary elections in June 2005. A winning coalition was formed among the BSP, and two other parties (National Movement for Stability and Progress and the Movement for Rights and Reforms), but with a great help of Parvanov. As an incumbent, Parvanov weighed in to assure that the cabinet is formed, because this eliminated the possibility of another early legislative elections and a possible loss at the 2006 presidential elections (Andreev, 2008, 44). Perhaps this is what both Milošević and Tadić could have done as incumbents had they not run and lost.

In some cases, constitutional provisions eliminated early elections and the loss aversion effect. Consider the case of Georgia. In the 2012 parliamentary elections, the majority was won by the Georgian Dream coalition, which removed Mikhail Saakashvili’s United National Movement from the office. At that moment, Saakashvili was the incumbent president who was serving his second term, which started in 2008. Perhaps Saakashvili would have shortened his term in 2012 if he had been allowed to run for the third time. But since this was constitutionally not permitted, he remained inactive (NA), and his term ended in 2013.

Sometimes incumbent presidents abstain from leaving office early because the position of the president was won not long before. Consider the case of 2011 Croatian parliamentary elections. President Josipović was elected in January 2010. Parliamentary elections were due in December 2011. In most countries, the office of the presidents is constitutionally constrained to two 5-year terms. If Josipović had shortened his mandate less than two years after he was elected, he would have given up the first term’s three remaining years in office. Strategically timed elections at any time make sense for heads of governments because, constitutionally, any incumbent premier can be reelected numerous times (Balke, 1990; Kayser, 2005). Presidents cannot. If Josipović gave up the three years of the first term, he would have never been able to get them back. Josipović lost in 2015, so the decision not to run earlier appeared to have been a good one after all.

In agreement with the microeconomic concept of marginal benefit and costs (Frank, 2007, 12–17), a rational choice theorist would have to say that the marginal value of the remaining number of years (or months) in office decreases as the incumbent approaches the end of the term. Hence, Milošević’s ten months and Tadić’s nine months in office were less valuable than Josipović’s 36 remaining months. This was why it was easier for them to gamble. But where exactly is the cutoff point after which the month becomes easy to gamble with? Recall the case of Filip Vujanović from Montenegro or Georgi Parvanov from Bulgaria. They both had 16 months to go, but did not shorten their terms. Even more extreme example can be found in Romania. Trian Băsescu, from Democratic Liberal Party (DLP), won presidential elections in December 2004. His term was about to expire in November 2009. (He was a popular president and he was reelected in 2009.) In November 2008 parliamentary elections were held. The race between Băsescu’s DLP and Alliance PSD – PC was rather close. The Alliance won slightly more votes than DLP (DLP with two other parties cobbled together a cabinet, though). In November 2008, Băsescu had remained 12 months in office. He could have shortened his mandate to help his DLP to win elections. Yet, he did not do that.

This kind of dilemma—after how many marginal units of consumption people change behavior—pertains to many other social situations. Some people feel grateful when receiving gifts. Some people are, in contrast, resentful. Why? Less expensive gifts create small obligations; expensive gifts create large obligations that persons may not be able to fulfill (Elster, 2015, 34). But how exactly expensive a gift should be to turn the feeling from grateful to resentful? \( €10, €100, \text{or} €1000? \) When people do not see each other, will they forget about each other (“Out of sight, out of mind”), or will they have greater wish to see each other (“Absence makes heart grow fonder”)? There is a third saying which states that “A short absence can do much good”. But how exactly short it should be to be good? Two weeks, two months, or two years? (Elster, 2015, 35)?

Vujanović and Parvanov had 16 remaining months in office, and Băsescu 12. These months were perhaps not as “cheap” as the ten and nine months of Milošević and Tadić, but were surely much cheaper than Josipović’s 36 remaining months. Maybe the cutoff point is somewhere between 10 and 12? When exactly a remaining month in office becomes cheap to be up for gambling would require another research, and a larger sample.
9. Putting the findings in context – relevance for prospect theory

Can prospect theory benefit from this paper’s insight on the connection between loss aversion and early presidential elections under semi-presidential political arrangements?

Prospect theory claims to be studying predictable errors (Kahneman and Tversky, 1974; Thaler, 2015; 24). But no social theory can claim an absolute predictability but rather derives its conclusions from the prevalent behavior. Prospect theory emerged as a theory that is applied in experimental situations that were designed to be context-free. Several experiments were designed to show how agents frame decisions when making choices (Kahneman and Tversky, 1981). Most of them are mere lotteries deprived of social context that could well affect agents’ decisions. Consider the concept of sunk cost, one of the favorite examples of behavioral economists with which to undermine rational choice (Arkes and Ayton, 1999). The concept of sunk cost also tells us that it is pointless to cry over spoiled milk. The rational choice model of the world suggests that these costs should be ignored, and not ignoring them presents a pitfall in decision making (Frank, 2007; 9–11). Yet Kahneman and Tversky as well as other behavioral economists prove that majority of the people do not ignore sunk costs but are rather influenced by them (Kahneman and Tversky, 1981; Thaler, 2015). However, their experiments also prove that there are some people who rely on economic rationality. Actually, what they show is that in a situation in which it is economically profitable to ignore sunk costs, 46 per cent of the respondents will behave according to the rational choice theory (will ignore sunk costs), and 54 per cent of the respondents will behave according to prospect theory (continue to be influenced by sunk costs) (Kahneman and Tversky, 1981: 457), but the only aspect of the experiment which favors the authors’ conclusion is that the majority of the respondents (54 per cent) takes sunk costs into account.

Similarly, experiments in rational choice and game theory failed to produce more precise and definitive answers. For example, experiments in centipede game, which should always end where it had started, frequently showed mixed results. Of 662 games, only 37 ended in the first move, and 23 times the game was played until the end. The subgame perfect equilibrium and backward induction methods failed to produce a definitive and unambiguous results in predicting rational behavior (McKelvy and Palfrey, 1992; Palfrey, 2006, 2007).

Similar results are obtained by this paper’s analysis. A larger percentage of cases exemplify risk-aversion principle, whereas smaller percentage of cases exemplify loss aversion principle. From this we can conclude only that, when parliamentary elections are called, presidents will sometimes remain in the office, but sometimes will take the risk and run to support their parties. The contribution of prospect theory and loss aversion is that when we identify the assumptions, we might find out why some presidents remained in the office and some ran (and lost).

References


