

Due to its simplicity and the normative appeal of its axioms, expected utility has been for many years the dominant framework for analyzing decision problems under risk and uncertainty. Since the famous paradox of Allais (1953), however, a large body of empirical evidence has been gathered which indicates tend to violate the assumptions underlying the expected utility model systematically. In particular the independence axiom seems to be not in line with peoples' actual choice behavior. This evidence has motivated reseraches to develop alternative theories of choice under risk which typically rest on weaker assumptions and are able to accommodate the observed choice patterns. In my talk I will review recent developments in both, emprical studies and development of new models. Special attention will be devoted to probability weighting, i.e. the observation that the sensitivity to probabilities ais typically nonlinear, and reference dependence, i.e. the fact that people typically do not evaluate risky prospects in terms of final wealth but as gains and losses relative to a reference point. In particular recent models of reference dependence are rather successful in explaining empirical data.