

# Introducing a Two-Reference Point Prospect Theory into Adaptive Aspirations

**Songcui HU**

University of North Carolina at Chapel Hill

**Daniela Blettner**

University of Southern Mississippi

**Richard Bettis**

University of North Carolina

**Abstract:** The theory of adaptive aspirations is of considerable interest to scholars of cognitive science, organization studies, strategic management, and other fields. Traditional adaptive aspiration model is based in prospect theory, which argues that the agents will be risk seeking when their performance is below the aspiration level, and be risk averse when their performance is above the aspiration level. We argue that the risk taking behavior does not necessarily follow the prospect theory when agents encounter with extreme performance, extremely low or high performance. And we introduce a two-reference point prospect theory, which suggests that the agents will be risk averse when they are approaching survival point, and will be risk seeking when they have safe success. Next, we introduce the two-reference point prospect theory into the traditional historical adaptive aspiration model and find a reversal of the effectiveness of the adjusting speed of aspiration levels on performance as compared to previous models.