



PIER Research Workshop 2020

Do Financial Worries Change Risk Preferences Under Prospect Theory?

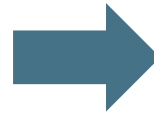
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Main question

Do financial worries cause risk preferences to change?

Induce financial
worries



Elicit risk
preferences

Priming subjects

- Financial hard
- Financial easy
- Non-financial hard
- Non-financial easy



Non-financial/
financial
worries

cognitive function/emotion

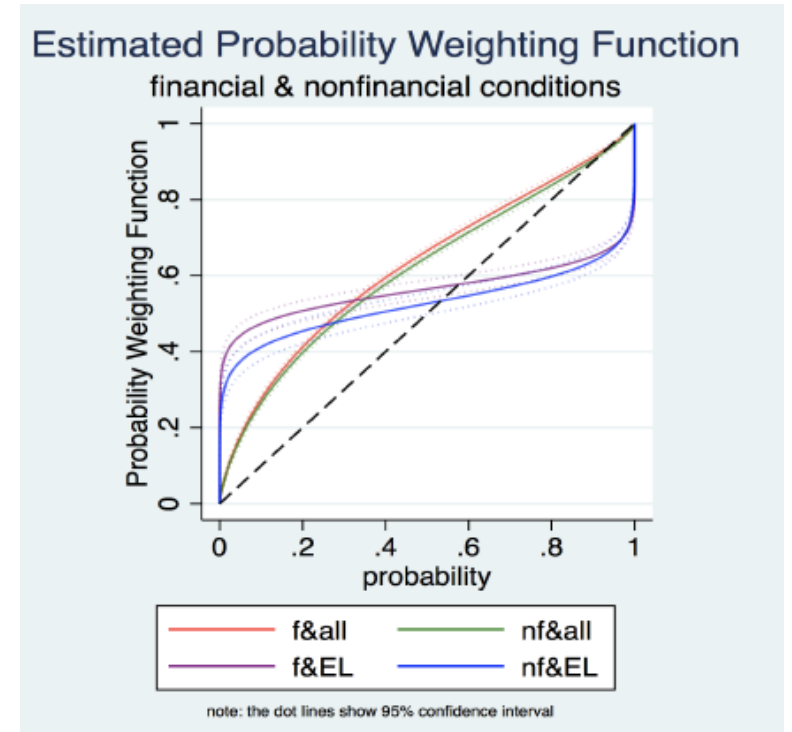


Extracting risk
parameters

- Risk attitude
- Loss aversion
- Probability weighting

Experimental Results

- Why is the priming not as effective as expected?
 - Only fh significantly increased financial worries relative to fe
 - However, there is no statistically difference in risk preferences between treatments fh and fe
- Are there transmission channels other than financial worries? Non-financial worries?
 - Some risk parameters in other pairs of treatments are significantly different
- Could we use level of observed financial worries to find treatment effects instead of priming?
- Why probability weighting functions are very sensitive to lottery types even if lottery types are similar gambles?

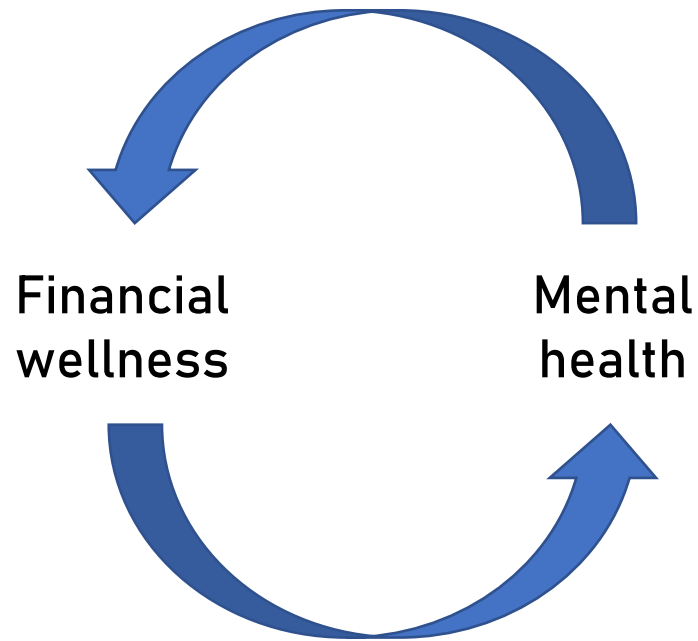


Source: Kosindesha (2020)

External validity

- In real-life, an individual may get an initial financial shock and the effect wears off as she gets used to the financial worries.
- Risk preferences seem inconsistent across risky situations in the experiment. Should we expect the same qualitative effects in real-life?
- Unless being forced, those who have financial worries may just put off making important risky decisions

Implications



- There are good reasons why we should care about financial worries. Financial stress check?
- We are well aware of financial literacy but there is not much emphasis on behavioral biases. Financial concerns affect biases.
- Financial status whether being poor or being financially independent are relative. Social medias further constantly increase cognitive loads and potentially aggravate financial worries?
- Instruments that reduce cognitive taxes help (e.g. smart defaults, pre-filled forms, etc.) not only the “poor”