



RESEARCH SEMINAR

EQM Research Seminar

Who should exert more effort?

Risk aversion, downside risk aversion and optimal prevention

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Thursday, June 26th, 2019 – 11:00 – 12:30

Abstract:

I provide new results on how risk preferences affect optimal prevention. I identify a comparative risk aversion and a comparative downside risk aversion effect and highlight those cases where both effects are aligned. Alignment depends on a probability threshold, which, in turn, only depends on the preferences of a benchmark agent. This allows to define an entire class of decision-makers who all share the same comparative static prediction relative to the reference agent. I interpret my results in terms of Arrow-Pratt risk aversion and the Schwarzian derivative, and also study several classes of parametric preferences changes.