



## EQM RESEARCH SEMINAR



### “Environmental Factors Shape Risk Preferences”

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Thursday, March 19<sup>th</sup>, 2020 – 12:30 – 14:00

**Abstract:**

Risk preferences differ across individuals and change over time, but little is still known on what determines them. We present incentivized panel data from Ethiopia, and pair them with rainfall data to address this question. We find rainfall shocks to decrease risk tolerance for the same individuals over time. Once we purify preferences of the effect of shocks and aggregate them over time, we are able to explain over 40% of the cross-sectional variation in idiosyncratic preferences using environmental characteristics. We exclude selection effects as a plausible explanation for these patterns. This provides strong evidence that preferences adapt to the environment.

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