

> Thursday, December 9th, 2021

14:00 - 15:30

IRISK RESEARCH SEMINAR

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ABSTRACT

A CONVENIENT TRUTH: BETWEEN-SUBJECT RANDOM INCENTIVES AND PREFERENCES TOWARDS RISK AND TIME

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The random incentive system (RIS) is the gold standard real-incentive mechanism in economic experiments: one of the choices made by each subject is played for real. In a variation of this mechanism, called hybrid RIS, each subject has a selection probability p for RIS to apply to her choices. With this mechanism, RIS applies only to a fraction of subjects, thereby reducing experimental costs, or allowing the consider larger experimental payoffs.

This paper reports an experiment that evaluates this mechanism, by testing the impact of the selection probability p on risk and time preferences. Certainty equivalents and sooner equivalents are measured under four between-subject treatments: $p=0$, $p=0.1$, $p=0.5$ and $p=1$. The data are analysed using model-free statistics and structural estimations of decision models.

Time preferences are not impacted by the selection probability. More risk tolerance is observed when $p=0$ than when $p>0$, but no effect is captured regarding the magnitude of the non-zero selection probability. These results point to a “convenient truth”: experimentalist can use hybrid RIS to reduce experimental costs or consider larger choice outcomes, without distorting observed preferences.



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