

> Friday, September 23rd, 2022

13:30 – 14:30

IRISK RESEARCH SEMINAR



EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

A graphic showing a person in a dark suit standing on a white surface, looking out over a vast, flat landscape. The words 'RESEARCH SEMINAR' are written in large, bold, yellow, 3D-style letters across the bottom of the image.

**RESEARCH
SEMINAR**

‘HIGHER ORDER RISK PREFERENCES AND ECONOMIC DECISIONS’

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ABSTRACT

Under expected utility, individuals’ higher risk attitudes prudence and temperance determine savings and investment decisions. Prudent individuals save more when their future income becomes more uncertain; temperate individuals prefer less risky investment in the presence of greater background risks. In experimental savings and investment tasks, we find clear evidence for both predictions for the average individual. We also measure individuals’ (higher-order) risk attitudes directly, using two different elicitation methods. We find that individual prudence measures explain the strength of the precautionary saving, while individual temperance measures do not aid explaining investment. The two elicitation methods yield strongly correlated risk preference measures for risk aversion, prudence and temperance.

