



## Fiche de sujet de contrat doctoral 2019

**Titre en français (et éventuellement en anglais) :** Does background risk affect social preferences?

**Mots clés français (et éventuellement en anglais) :** Background risk, social preferences, risk preferences, experimental economics, portfolio allocation, ESG.

**Laboratoire :** CEE-M, MRM

**Directeur :** Brice Magdalou (CEE-M), Frédéric Le Roy (MRM)

**Coordonnées (mail secrétariat, tél.) :**

**Directeur de thèse :** Marc Willinger and Patrick Sentis (co-directors), Mickael Beaud

**Coordonnées :** [marc.willinger@umontpellier.fr](mailto:marc.willinger@umontpellier.fr), [patrick.sentis@umontpellier.fr](mailto:patrick.sentis@umontpellier.fr), [mickael.beaud@umontpellier.fr](mailto:mickael.beaud@umontpellier.fr)

**Comité de Suivi Individuel (CSI) (recommandé) :** to define

### Présentation du sujet (en français et éventuellement en anglais) :

Background risk is defined as an unavoidable uninsurable independent risk that affects people's preferences and behaviors. Examples of background risk include macroeconomic shocks (e.g., financial crises, oil price), wars and natural hazards (volcanic eruptions, tsunamis, earthquakes,...). Evidence about the impact of background risk on risk taking has been provided in empirical studies (e.g., Heaton & Lucas, 2000; Malmandier & Nagel, 2011,) and in lab experiments (Beaud & Willinger, 2015; Cohn et al., 2015).

This project is about the impact of background risk on social preferences, i.e. altruism, trust and cooperativeness. Individuals exposed to background risk might be more socially oriented, because they share a common threat with other community members. The common exposure to risk might activate a stronger feeling of group identity as shown in Gong et al. (2009, 2013). Several dimensions of social preferences in communities exposed to natural hazards may therefore be concerned: altruism, trust and cooperativeness. These dimensions might be related to an individual's risk attitudes. For instance, several studies have shown that more risk tolerant individuals are also more likely to trust others (Altmann et al., 2008, Schechter, 2005). This is why background risk, by affecting risk preferences, affect also social preferences.

The main objective of the project will be to build a theoretical framework that allows to capture the relationship between risk preferences and social preferences in the presence/absence of background risk. Two main methods will be used: behavioral modelling and laboratory experiments. Existing



models of social preferences (e.g., Fehr & Schmidt (1999), Bolton & Ockenfels (2000)) have not yet been extended to the uncertainty case. As a preliminary step, it is therefore necessary to broaden their scope to derive theoretical predictions about the impact of background risk on the main dimensions of social preferences: trust, altruism and cooperativeness. In a second step, these predictions will be tested in the lab and eventually in the field. Inducing background in the lab will follow the method proposed in Beaud & Willinger (2015).

The impact of background risk on social preferences may in turn affect investment decisions. Heaton & Lucas (2000) showed that some types of background risks affected households' portfolio choices (Heaton and Lucas, 2000), a fact that illustrates the standard impact of background risk on risk preferences. The recent emergence of global background risks, i.e. global warming or potential biodiversity losses, may affect portfolio choices through the secondary channel of social preferences. Investors may become more likely to choose portfolios which are more ESG oriented. Hence, recent portfolio choices or rebalancing could reflect changes in the investors' social preferences induced by background risk, representing a direct evidence of the theoretical insight of this research.

## Références bibliographiques :

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- Beaud, Mickael and Marc Willinger, "Are people risk vulnerable?," *Management Science*, 2015, 61 (3), 624–636.
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- Gong, M., Baron, J., Kunreuther, H. 2009. Group cooperation under uncertainty. *J. Risk and Uncertainty*, 39:251-270.
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- Heaton, J., Lucas, D., 2000. Portfolio Choice in the Presence of Background Risk, *The Economic Journal*, Volume 110, 460, 1–26.
- Malmendier, U., & Nagel, S. (2011). Depression Babies: Do Macroeconomic Experiences Affect Risk-Taking? *Quarterly Journal of Economics*, 126, 373–416.
- Schechter, L. 2007. Traditional trust measurement and the risk confound: an experiment in rural Paraguay. *Journal of Economic Behavior & Organization*, 62:272-292.

## Compétences particulières souhaitées / profil attendu (en français et éventuellement en anglais) :

Advanced theoretical knowledge about social preferences, risk preferences, and portfolio allocation. Statistical and econometrics skills. Ability to program on Z-tree and to use statistical software (R, Stata, or others). Experiences in experimental economics. Spoken and written English, Spoken French.