

Economic preferences and attitudes : origins, behavioral impact, stability and measurement

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Valorization

Research on economic preferences strives to provide a better understanding of the very basis of how economic decisions are made. The insights gained by this research field are very valuable to study decision making, i.e. a myriad of topics in economics. However, research on preferences is very complex and the field is fragmented. Currently much of the economic research on this topic is mainly of a fundamental scientific nature and insights should be applied in very cautious ways if it comes to policy advice, despite the fact that the findings are of great interest to policy makers so that one is tempted to draw immediate conclusions for policy. A premature application of findings is however not advisable. I discuss this important point in more detail at the end of this valorization addendum, after an overview of the findings of my thesis.

This thesis

The value of the insights gained in this thesis is mainly of academic nature. While the papers in this thesis and many other recent studies on economic preferences, attitudes and personality traits study and partially explain human motivation and human behavior, much of the variance in behavior remains unexplained. Accordingly, the main goal of this thesis is to provide insights that are useful to the field of study and that will help understand behavior in a broader context, rather than provide ready-made answers to current policy questions. In the long run however, the knowledge that is accumulated in this field will be very valuable for policy design and predictions of economic outcomes. In the following I repeat briefly the main points of each chapter for the valorization. A more detailed discussion of the mentioned points is found in the conclusions of the respective chapter and in the conclusion of the thesis in chapter 6.

Chapter 2 shows that parents who invest more in their children have children who are more similar to them with respect to risk and trust attitudes. This finding points to a potential mechanism of the intergenerational transmission of preferences in which parents could purposefully invest in their children to shape their children's preferences according to their own. This in turn adds to the understanding of social (im)mobility and inequality. Further it provides empirical evidence in support of assumptions on which theoretical models of intergenerational transmission of culture and preferences are based.

In Chapter 3 I show theoretically and empirically that the match in preferences is important for the stability of a partnership. I show that it is useful not only to look at levels when investigating preferences, but also at the interaction of preferences of different individuals. With respect to the empirical application, the findings of this chapter provide evidence that there is positive assortative mating in terms of negative reciprocal inclinations. Positive assortative mating has been shown to strengthen the intergenerational transmission of the respective characteristic or preference. If the respective characteristics or preferences are linked to outcomes, e.g. as risk or time preferences are linked to educational outcomes, positive assortative mating will reinforce the intergenerational transmission of outcomes. The results therefore also contribute to the understanding of the mechanisms that lead to social immobility.

Chapter 4 deals with the question of stability of preferences. Many theoretical and empirical findings on preferences are based on the assumption of stability of preferences. Empirical studies have however shown that there is sizable within-individual variation in measured preferences. The analysis in this chapter investigates the within-individual variation and shows that there is a long-lasting effect of economic environment on self-stated risk attitudes. This means that the variation in risk attitudes over time is partially predictable and if everybody experienced a similar change in the economic environment, the rank-order stability of preferences might not be affected. Further the results point out the heterogeneity in malleability of preferences. This means that policies that affect the risk environment of individuals could result in very heterogeneous responses across different population groups. This is important for the external validity of policy evaluation on policies that target specific groups, i.e. the responses from one group cannot easily be extrapolated to the population as a whole.

In Chapter 5 I discuss the problem of focal answers, a data related problem that is incommensurate the measurement of preferences in survey data. A small theoretical model offers an explanation of focal answer behavior which helps understand what focal answers mean and how they can be interpreted. The chapter then suggests a simple econometric tool to improve on estimators and discover the correlates of individual's uncertainty in case of measurement error due to focal responses.

General remarks on policy advice concerning preferences and attitudes

There are three main challenges that have to be considered before one attempts to draw conclusions and shape policies on the basis of research on preferences. Firstly we should pause to consider whether it is at all advisable and ethical to try to change people's preferences, i.e. the very core of their individuality; or whether this paternalistic approach is inadequate. But even if we deem it ethically unproblematic to change preferences, it is important to acknowledge that it is not clear what optimal preferences (individually and socially) are. The optimum is unlikely to be a corner solution. Trust, for example, is an important trait in a society which relies on interpersonal transactions, but too much trust

can be harmful to the individual, depending on the environment in which the individual interacts. Additionally, there might be individual heterogeneity in the optimal preference level. The social optimum in risk aversion for example might depend on the level of other individual abilities, for example it could be beneficial for less able individuals to be more risk averse, while more able individuals would profit from a higher willingness to take risks.

The second major challenge is causality. It is very difficult to establish causality in research on preferences since it is hard to find exogenous variation in preferences, and it is likely to be unethical, if not impossible to induce such a variation. Preferences are innate characteristics of individuals, that are correlated with other preferences, with personality and sometimes also external factors as the socioeconomic background. There are some programs, for example the Perry preschool program, that have been conducted and that arguably led to exogenous variation in preferences. These quasi experiments however also do not allow to causally link specific preferences to outcomes. Experiments in the lab provide insights into the heterogeneity in preferences, but they are not well suited to study the causal impact of preferences on choices, since we are mostly interested in innate, stable individual preferences, that cannot be easily changed (at the very least not in a sufficiently short time horizon). The ethical concern about tempering with individuals' preferences is particularly grave if we don't have compelling evidence that certain preferences are indeed welfare enhancing. Hence, much of the current research on economic preferences is correlational, suggesting possible effects.

Finally, the third challenge is that the effects of a single preference on an outcome or behavior typically explain only a small fraction of the total heterogeneity in outcomes, as many – potentially interdependent – factors are simultaneously at play. We can build a more complete picture by creating pieces of the puzzle and one by one combining them. This however also means that it is very hard to use insights from the studies in this field directly for policy recommendations. While a particular policy might be in line with a particular finding, it is difficult to design the policy to only influence a particular preference and keep everything else unchanged. Unanticipated correlated side effects of the policy might render the intervention useless or even do the opposite of what was intended. On the other side of the same coin insights on how economic preferences are related to outcomes can help understanding what went wrong, when policies do not have the expected effects. Examples for such are unintended selection effects (e.g. payment schemes in the banking system not only increase the effort of employees, but are also attracting more risk loving employees), or motivational crowding out (e.g. being paid for blood donations might demotivate certain individuals who then stop donating).

Altogether research on economic preferences and attitudes is a promising venue for understanding policy and eventually also basing policies on. Given the current constraints much research is still needed in this field, which has seen much interest recently and developed quickly over the past decade.