Risk and Time Preferences and Financial Decisions of Couples

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The paper: purpose & contribution

Main goal: analyse how (time and risk) preferences of **individuals** in **couples** affect decisions in real life, which involve some **degree of risk**

<u>Two steps:</u>

1. Measure **risk** and **time preferences** of partners and analyse their **correlation**
   - Is there assortative mating wrt preferences?
   - Is correlation higher for couples who have lived longer together?
   - *Does correlation depend on the way preferences are measured (self-reported Vs experiment)?*

2. Examine to which extent partners' preferences reflect into **households portfolios**

The paper: data & empirical strategy

Data:

Experiment to elicit individual preferences of respondents in LISS survey
($\rightarrow$ measures linked with covariates and household's wealth)

- **4 treatments** (with different payoffs and timing)
- **5 choices** (with different probabilities)
  $\rightarrow$ each respondent choose 20 times

Strategy:

1. Structural framework to estimate preference parameters + analysis of correlation between partners

2. Estimate the effect of preferences of both spouses on risk exposure of households' portfolios (extensive and intensive margins)

The paper: main findings

1. **Preferences of spouses**

   - **Time preferences**: both measures (experimental and self-assessed) are not significantly correlated within couples (even after controlling for observables)

   - **Risk aversion**: Small/insignificant correlation using experimental parameters; significant and more sizeable correlation between self-reported measures. Stronger correlat. for couples who have lived more together (difference not signific.)

2. **Portfolio management**

   - Risk aversion significant predictor for stock market participation (gender differences in the level of significance, depending on the weight used)

   - Impatience turns out to significantly reduce household financial wealth

Comments: the experiment

- **Set-up:**

Each individual decides <u>20 times</u> (4 treatments*5 choices): is there an increase in the error propensity over treatments (lower concentration/effort 20th choice/4th treatm.)?

- **Random coefficients model:** more details on the procedure

Explain more precisely why you assume $\beta=1$ (present bias parameter)

("Initial estimation results showed that the estimated present bias parameter was not significantly different from one. In the empirical results, we will therefore work with estimates assuming $\beta = 1$")

- **Estimated param.s from structural mode (risk aversion, time pref., error propensity):**
How to interpret their size? Are they high/low? Put them in the literature (for NL).

<u>Minor comments:</u>

- *"Treatments":* each respondent is subject to **all** 4 treatments.
  Labelling "scenarios" or *"configurations"* instead of treatments?

- Table A1, describing details of the experiment: explain better notations in note

Comments: results on preferences of spouses

Correlation between preferences of the spouses is **smaller (risk aversion)** or **not significant (time preferences)** for **experimental parameters** wrt self-assessed measures

- Does the scale matter? What if you consider high/low (risk averse) groups?
- Plot the distribution of preferences for the two spouses?
- Self-reported preferences have a qualitative interpretation: alternative measures to correlation?

Minor comment:

- I would discuss estimates showing correlation of preferences with covariates in the Appendix

Comments: results on portfolio choices

- Why **error propensity** should affect households' portfolio? Which economic rationale behind?

- **Changing weights** (income vs stated) affects the significance of preferences of males/females. How to interpret this finding?
  - Show descriptives of the regressors (also weighted ones) and correlation between weights and estimated preferences
  - Controlling for family (instead of individual) income?

- How big are the estimated effects? Report also marginal effects in Table 5 (estimates from probit of holding risky assets)

Minor comments to Table 5:
- Mention that controls are included (and refer to complete tables in the appendix)
- Show only columns 1/3 or 4/6

Comments: results on portfolio choices

Which future steps? ….

- Does the impact of preferences of one partner depend on preferences of the other one? E.g. Less risky portfolio when both spouses are risk averse? Add interaction term?

- Heterogeneity:
  - by cohort (preferences may have a different effect for young/elderly)
  - for couple who agree/disagree on who is the household head

- ……

Comments: additional results

Determinant of stated decision power (decisions about financial affairs)

These results are relevant *per se*.

Suggestion: discuss them more extensively in Appendix or in a short paper

Some points:

- Which vars are correlated with disagreement within the couple about who is the household head?

- Do *financial affairs* have different meaning for different respondents?
E.g. portfolio management vs paying bills.