

Take a Risk

-Social Interaction, Gender Identity, and the Role
of Family Ties in Financial Decision-Making

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Abstract

This thesis consists of an introductory part and four self-contained papers studying individual financial behavior and risk-taking in financial markets.

In **Paper [I]** we estimate within-family and community social interaction effects upon an individual's stock market entry, participation, and exit decision. Interestingly, community sentiment towards the stock market (based on portfolio outcomes in the community) does not influence individuals' likelihood to enter, while a positive sentiment increases (decreases) the likelihood of participation (exit). Overall, the results stress the importance of accounting for family social influence and highlight potentially important differences between family and community effects in individuals' stock market participation.

In **Paper [II]** novel evidence is provided indicating that the influence from family (parents and partners) and peer social interaction on individuals' stock market participation vary over different types of individuals. Results imply that individuals' exposure to, and valuation of, stock market related social signals are of importance and thus, contribute to the understanding of the heterogeneous influence of social interaction. Overall, the results are interesting and enhance the understanding of the underlying mechanisms of social interaction on individuals' financial decision making.

In **Paper [III]** the impact of divorce on individual financial behavior is empirically examined in a dynamic setting. Evidence that divorcing individuals increase their saving rates before the divorce is presented. This may be seen as a response to the increase in background risk that divorce produces. After the divorce, a negative divorce effect on individual saving rates and risky asset shares are established, which may lead to disparities in wealth accumulation possibilities between married and divorced. Women are, on average, shown to not adjust their precautionary savings to the same extent as men before the divorce. I also provide tentative evidence that women reduce their financial risk-taking more than men after a divorce, which could be a result of inequalities in financial positions or an adjustment towards individual preferences.

Paper [IV] provides novel empirical evidence that gender identity is of importance for individuals' financial risk-taking. Specifically, by use of matching and by dividing male and females into those with "traditional" versus "nontraditional" gender identities, comparison of average risk-taking between groupings indicate that over a third (about 35-40%) of the identified total gender risk differential is explained by differences in gender identities. Results further indicate that risky financial market participation is 19 percentage points higher in groups of women with nontraditional, compared with traditional, gender identities. The results, obtained while conditioning upon a vast number of controls, are robust towards a large number of alternative explanations and indicate that some individuals (mainly women) partly are fostered by society, through identity formation and socially constructed norms, to a relatively lower financial risk-taking.

Keywords

Asset Allocation, Behavioral Finance, Divorce, Financial Literacy, Financial Risk Taking, Gender Identity, Household Finance, Panel data, Propensity Score Matching, Risky Asset Share, Risk Aversion, Stock Market Participation, Social Interaction, Trust

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