Title: “Changes in higher order risk attitudes during a pandemic: the impact of rapid increases in health background risk on financial decisions”

Authors:
Dr. Abdul H. Kidwai
Department of Economics
University of Wisconsin – La Crosse
E-mail: akidwai@uwlax.edu

Dr. Irene Mussio
Department of Economics
McMaster University
E-mail: mussioi@mcmaster.ca

PhD(c) Maximiliano Sosa Andrés
Department of Economics
Uppsala University
E-mail: maximiliano.sosa_andres@nek.uu.se

Abstract
Individuals make economic decisions while being exposed to a multitude of risks that they cannot completely control: risks such as pandemics, chronic illnesses, income instability or environmental hazards. One of these risks is the current coronavirus disease (COVID-19). The disease itself represents an additional risk for individuals, and it has determined a series of harsh measures around the world to contain it, including lockdowns and quarantines. However, the illness as well as quarantine measures have prompted changes in behavior. Some examples of these changes include impulse purchasing, hoarding non-perishable goods, or even defying government rules to social distance or self-isolate. Among all these behaviors, we propose to understand changes in behavior involving financial decisions determined by the exogenous introduction of COVID-19 in people’s lives. In this study we test the impact of an increase in background risk on risk aversion, prudence and temperance (higher order risk attitudes or HORA), which have strong implications on economic decision making.

We propose to extend the literature on HORA by using a controlled experiment to examine the impact of exogenous increases in health background risk on a financial, “primary risk” decision. We elicit HORA using an experimental risk apportionment approach which was developed by Eeckhoudt and Schlesinger (2006) and Eeckhoudt et al. (2009). This approach uses 50-50 lottery pairs to define risk aversion, prudence and temperance (Eeckhoudt et al. 2009, Crainich et al. 2013). We follow with a questionnaire that includes socioeconomic questions and questions about beliefs about COVID-19 and behaviors during the pandemic. The experiment will take place in April 2020 (during the COVID-19 lockdown).

Data Description
We expect to collect HORA elicitation for 300 participants online in Amazon Mechanical Turk with an adult population. Participants are recruited from the United States, without any restrictions on their socioeconomic background.

JEL Codes: D81, C91, D91, I12

Key Words: Higher order Risk Preferences, Financial Decision-Making, Health behavior, Health risks, COVID-19,