

Report Type

Mid Term Award Report

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Faculty/Department

Economics

Project Title

Financial Decisions: The Role of Information Through Social Networks

Project Abstract

The research project examines the role of social interactions for the spread of financial behaviour, the potential for financial crises and its implications for macroeconomic aggregates. Using state of the art empirical, survey and experimental methods for quantitatively measuring individual beliefs and the relevant information sets for forming them, we will explore the influence of perceptions of peer participation rates in particular financial instruments on individual behaviour. Utilising unique data on subjective expectations, we investigate the extent to which this peer effect runs through influencing expectations and how this depends on individual perceptions about information of peers. Second, we focus on the formation of subjective expectations and in particular, on the role that perceived market outcomes (e.g. returns or prices) and participation behaviour of others have on those. Third, we conduct a field experiment in which we vary the amount and type of objective information on peer participation and market outcomes that is available to respondents. We then examine the extent to which this additional information influences their perceived peer behaviour, their expectations and ultimately, their own behaviour.

Activities and Achievement

When forming expectations and making financial decisions, do economic agents use their social interactions to augment their information sets and learn from them? The answer to this is important for assessing whether social networks mainly reduce information costs or spread aspects of financial culture through imitation and comparison. In this project, we hypothesize and test whether and to what extent social networks are used for disseminating information relevant for expectations formation and financial decision-making. This is done by exploiting a unique survey-based longitudinal dataset in France (Taylor Nelson-Sofres 'Mode de vie des Français' survey). The actual survey was in the field during May - June 2015 and has now been formally linked to the previous survey waves from 2007, 2009, 2011 and 2014. The response rate for the questionnaires of this wave was approximately 70%. The raw data is currently being processed and we expect to have some first descriptive statistics and basic econometric results by October 2015.

Dissemination

We expect to have the first set of results by the end of October, 2015. Seminar presentations have already been arranged for this year to present the preliminary results of our research. We are expecting to submit our working paper to a variety of specialized conferences. We are also planning to organise a small workshop in

Cambridge around the theme of our research, in early May.

This project focuses on valuing the effects of expectations and information constraints on households' financial choices. This will inform debates and practice about the spread and impact of the financial crisis and provide insights to financial sector practitioners, regarding potential future developments in the demand for financial products and for relevant information. Our most general contribution will be to assess quantitatively the responsiveness of individual financial behaviour and individual information sets to social interactions, within a network structure. As a result, the research has the potential to inform the design of government policy through greater understanding of the main factors that can trigger financial panics, frenzies or crashes.

Outputs

Major Difficulties and Any Other Issues

Due to a delay in obtaining the complete amount required for our research and various other administrative delays, we were only able to field the survey with six months of delay of the original planned date. This meant that we needed to sacrifice space in the survey questionnaire for repeating questions that had already been covered in December 2014 (in order to ensure that personal circumstances of the subjects have not changed), however we still managed to insert all the main questions that we had planned for, given our available space.