

Report Type

End of Award Report

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Faculty/Department

Economics

Project Title

Financial Decisions: The Role of Information through social networks Project Period:  
September 2014- December 2016

Project Start Date

Jan 01, 2015

Project End Date

Dec 16, 2016

Project Abstract

We design, field and exploit novel survey data, from a representative sample of the French population in December 2014 and May 2015 to provide insights regarding social interactions and whether they are informative for financial decisions, or they encourage imitation, mindful or mindless. We provide a model where purely informative social interactions influence subjective expectations of future stock market returns and demand for investing in stocks, and find strong support for the presence of informative social interactions. The extent to which the respondent's financial circle is informed about or participates in stock market appears to influence perceptions of recent stock returns and, only through them, expectations of future returns. Controlling for subjective expectations, stock market participation and the conditional portfolio share are positively influenced by the extent to which the financial circle is informed about or participating in the stock market. Alongside informative social interactions with the respondent's financial circle, we also find some evidence of mindless imitation of stock market participation observed in the outer social circle. These findings suggest that informative social interactions are significant and create a social multiplier for financial education and information, even though the potential for mindless imitation is also present.

Activities and Achievement

Recent research has shown that individuals are more likely to undertake financial risk when more of the people with whom they interact do so. Is this mindless copying or processing of information from knowledgeable peers? The former can lead to fads, bubbles, and crises, such as the internet bubble or the recent financial crisis. The latter can mitigate crises by communicating financial best practices. The research project developed and analysed novel survey data on a representative sample of French households in 2014 and 2015. We find that people with a greater perceived share of informed peers tend to form a financial circle and to be influenced by that rather than the remaining of their social circle in forming perceptions about the past, expectations about the future, or their degree of exposure to stockholding risk given that they decide to take the plunge. However, peers influence the decision to become a stockholder directly, as well as through expectations. While the thrust of the findings points to informative social interactions, there is a trace of mindless imitation in the participation decision, as it is influenced even by perceived participation in the outer social circle. Since completion of the analysis, we have engaged in extensive dissemination activities targeting both academic and policy oriented conferences and

institutions (see the dissemination entry for details). We are also expecting to extend the analysis using our survey data to analyse similar research questions in the context of the housing market.

#### Dissemination

The most general contribution of our research is to assess quantitatively how responsive household's financial behaviour is to social interactions. As a result, the research will inform the design of government policy. Policy-makers will obtain a greater understanding of the main factors that may or may not trigger financial panics, frenzies or crashes, and how big events impact on a representative sample of the population. This will assist policy makers in deciding whether to allocate more resources to improve regulation. We have given and also expect to give presentations and disseminate the findings of our research to academic conferences (e.g. SED, CEF, EEA, RES annual conferences) as well as relevant policy institutions, such as the Financial Conduct Authority (FCA), the Bank of England and the HM Treasury, or similar institutions abroad, such as the L'Autorité des marchés financiers (AMF) in France and the European Central Bank (ECB).

#### Outputs

A first working paper draft of a paper titled "Informative Social Interactions" has been now completed and presented in conferences as well as some academic seminars. The draft is available upon request from the authors (it has not yet been made available publicly to download).

#### Major Difficulties and Any Other Issues

Some administrative delays in the fielding and collection of data at the beginning of the grand meant that the analysis and final production of draft of the paper.

#### Web Links

None.

#### Additional Information

#### Declaration

Details of relevant outputs of this award have been submitted to the CERF Database and details of any ensuing outputs will be submitted in due course.

Signature - Main Award Holder