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Understanding the Risk Preferences of the Poor

We investigate the extent to which economic experiments and choice models can characterize individual preferences in the presence of decision error and/or confusion. To do this, we use standard experimental methods to collect choices over risky outcomes in a representative sample of over 9,600 poor rural Peruvians, including couples and single individuals. Standard methods are typically difficult to implement in these populations because of low literacy and numeracy, so, not surprisingly, we find significant levels of measurement error and elicitation bias. However, we also find that choice-based modeling can help to purge these biases. Estimates of preferences that account for these biases are significantly correlated with field behavior and personal characteristics while naive measures that ignore measurement error are not. Each participant made choices in two different experimental instruments, and this allows us to examine how traditional methods of dealing with measurement error (e.g. IV estimation) compare to our choice-based estimates in terms of predicting field choices. Our approach provides stronger predictions and highlights the importance of repeated individual measures of behavior and modeling the nature of decision error.

Friday, September 30th

1:30 pm

AGLS 301