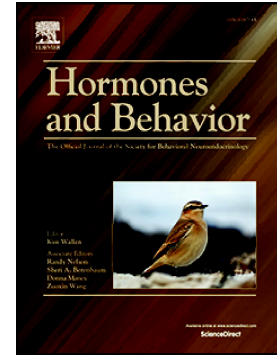


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Combining field work and laboratory work in the study of financial risk-taking

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## Opinion

### Combining field work and laboratory work in the study of financial risk-taking

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#### Abstract

A contribution to a special issue on Hormones and Human Competition.

Financial markets are periodically destabilized by bubbles and crashes during which investors display respectively what has been called 'irrational exuberance' and 'irrational pessimism'. How can we best study these pathologies in competitive and risk-taking behaviors? In this article, we argue that a science of risk-taking and of the financial markets needs to draw heavily on physiology and especially endocrinology, due to their central roles in moderating human behaviour. Importantly, this science of competition and risk requires the same spectrum of research protocols as is found in mature biological and medical sciences, a spectrum running from field work conducted within financial institutions themselves to more controlled laboratory studies, which permit cause to be distinguished from effect. Such a spectrum of studies is especially important for translational behavioural science.

#### Highlights

- Cycles in financial markets tend to overshoot levels that could be justified by current earnings
- Risk preferences appear to shift pro-cyclically
- Endocrine systems play a role in shifting risk preferences
- Understanding shifting risk preferences and market instability requires a combination of field and laboratory work.

#### Key words

Testosterone. Cortisol. Financial market. Bubble. Financial crisis. Risk preference. Exuberance. Pessimism.

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