

Contents lists available at [ScienceDirect](https://www.sciencedirect.com)

Journal of Economic Behavior and Organization

journal homepage: www.elsevier.com/locate/jebo

Stability of risk attitudes and media coverage of economic news

Franziska Tausch^{a,b}, Maria Zumbuehl^{c,*}

^a School of Economics, University of Sydney, H04 - Merewether, NSW 2006, Australia

^b Max Planck Institute for Research on Collective Goods, Kurt-Schumacher-Str.10, Bonn 53113, Germany

^c Department of Economics, University of Bern, Schanzeneckstrasse 1, Bern 3001, Switzerland

ARTICLE INFO

Article history:

Received 30 March 2017

Revised 11 January 2018

Accepted 16 January 2018

Available online xxx

JEL classification:

D80

D03

Keywords:

Media coverage

Economic news

Stability of risk attitudes

Risk perception

ABSTRACT

This paper investigates the impact of exogenous changes in the economic environment on individuals' risk attitudes. We combine data on media coverage of economic news with information on the self-stated willingness to take risks from the German Socioeconomic Panel Study. The average daily frequency of economic news reports is measured for different time frames preceding the date of the risk attitude elicitation. We find that while a short term increase in good news is positively related to the willingness to take risks, the relation is negative if we consider a long term increase. An increase in negative economic news coverage is negatively related to individuals' willingness to take risks, irrespective of the time frame. A positive (negative) correlation between bad (good) news coverage and individuals' worries about the economic state suggests that changes in risk perception may partly mediate the relation between news coverage and risk attitudes.

© 2018 Elsevier B.V. All rights reserved.

1. Introduction

In economic theory it is often assumed that risk preferences are stable personal characteristics. Many empirical studies however find evidence for within-individual variation in risk attitudes¹ over time and show that changes in risk attitudes are related to changes in personal economic circumstances or demographics (see e.g. Andersen et al., 2008, Cho et al., 2013, Jung and Treibich, 2015) and changes in the macroeconomic environment (e.g. Bucciol and Miniaci, 2018, Sahm, 2012). The latter are of particular interest for investigating the systematic variation in risk attitudes, since in contrast to observable personal changes they are likely to be exogenous. Macroeconomic indexes, however, often capture long time spans (e.g. GDP). If their measurement is provided only in a yearly or quarterly fashion, matching them to individual data that is measured throughout the year results in either an additional lag of up to a complete period for some individuals, or leads to events being captured that have not yet taken place at the moment of the interview. Additionally, even measures that are more fine-tuned (e.g. stock market indexes) are suboptimal in that they are often relevant only to a selective subgroup of the society or generally hard to grasp. Therefore, individuals may not experience all changes in the macroeconomic environment that are captured by those measures.

* Corresponding author.

E-mail address: maria.zumbuehl@vwi.unibe.ch (M. Zumbuehl).

¹ We distinguish between latent risk preferences and measured risk preferences, which we refer to as risk attitudes.

Utilizing data on media coverage to create a precise measure for the perceived economic environment of an individual allows to overcome the timing and information problems of the conventional measures. The media reaches a broad audience and information on relevant events are promptly broadcasted.²

The focus of this paper is on the link between changes in media coverage of economic news and within person changes in self-stated risk attitudes. More broadly, we investigate whether changes in the economic environment can explain systematic changes in individual risk attitudes. Economic news are not only a particularly interesting and diverse measure for the perceived economic environment, but they also allow to make a distinction between long lasting and short term changes in the experienced environment. This allows to shed some light on the mechanism that mediates the relation between risk attitudes and news coverage. The media continuously relays information about economic events in a multitude of areas. In contrast to changes in news coverage of other subject areas that are difficult to evaluate or do not attract broad interest, changes in the economy affect virtually everyone. An increase in the amount of bad economic news can be interpreted as a worsening of the economic situation that is experienced by the individuals. While several studies focus on how risk attitudes are affected by rare extreme events that are negative by nature like the financial crisis (e.g. Guiso et al., 2013), natural catastrophes (e.g. Hanaoka et al., 2017) or the loss of a child (e.g. Bucciol and Zarrì, 2015), economic news have the advantages that they allow to capture more than one event, they can have a negative as well as positive valuation and individuals are continuously exposed to them.

In contrast to conventional economic indexes, news thus capture more detailed information about the economy that is conveyed on a daily base. They therefore constitute a continuous and overarching measure for perceived changes in the economy. Empirical evidence suggests that the media may influence individuals' formation of risk beliefs (see Wahlberg and Sjöberg, 2000). In an economic context Garz (2012), e.g., finds that individuals' perception of job security decreases in years with an increase of news coverage about labor market policy.³ Thus, following the news allows individuals to infer and regularly update their beliefs about own risk exposure, e.g. concerning income and unemployment.

Previous studies investigate the determinants of risk attitudes using cross sectional data. They show that the spectrum of how people deal with risk is broad and that considerable heterogeneity in risk attitudes among individuals exists (see e.g. Barsky et al., 1997, or Dohmen et al., 2011). Individual attributes are frequently investigated as influencing factors. Empirically confirmed findings are that the willingness to take risks is negatively correlated with being female and positively with income, wealth, height and education (see Donkers et al., 2001, Hartog et al., 2002, Dohmen et al., 2011).

Personal experience is another factor identified to play a role for individuals' risk attitudes. Malmendier and Nagel (2011) find that individuals who experienced periods of low stock market returns report a lower willingness to take financial risk, are less likely to participate in the stock market and have lower expectations about stock market returns. Their estimations show that the influence of recent experiences is stronger than the influence of distant experiences.

Due to their cross-sectional nature, the preceding studies are however not suited to study within-individual variation in risk attitudes over time. A few recent studies apply panel data analysis to investigate what factors are related to this variation. One line of research investigates the effects of changes in individuals' personal circumstances. Longitudinal surveys from several countries have been used to study the relation between risk attitudes and income, unemployment, self-employment and health (Cho et al., 2013; Hetschko and Preuss, 2015; Jung and Treibich, 2015; Brachert et al., 2017).

There are also a few papers that investigate how risk attitudes are related to changes in the general economic conditions. Using different risk attitude measures of the Dutch Household Survey, Bucciol and Miniaci (2018) find that individuals are generally more willing to take risk in periods of economic growth and less so in periods of recessions. Dohmen et al. (2016) investigate the impact of the economic development as measured by yearly GDP on the willingness to take risks in the Ukraine and Germany. They find a significant positive correlation between the regional GDP growth rate and the self-stated willingness to take risks in both countries. In Sahm (2012) economic conditions are measured on a monthly base by the Index of Consumer Sentiment which is then combined with the risk attitude measure from the Health and Retirement Study. Risk tolerance is found to be significantly positively related to the Index of Consumer Sentiment.

For our analysis we combine daily economic news data from the media research institute Media Tenor with survey data from seven waves of the German Socioeconomic Panel (SOEP) on individuals' self-stated willingness to take risks. For each recorded news item we have information on its valuation, as it is coded as being either good, bad or ambiguous news. The precision of the media data allows us to tailor the news measures to the date of the SOEP interview on which the risk attitudes are assessed. Forming a moving average of daily economic news reports in the year, the month, the week and the 2 days preceding the risk attitude elicitation we investigate whether short and long lasting exogenous changes have effects on individuals' self-stated risk attitudes.

Our analysis reveals that a part of the within-individual variation in risk attitudes over time can be explained by changes in media coverage of economic news. Making use of the panel structure of our data we estimate the impact of bad and good economic news on the willingness to take risks. We find that a short term increase in good news is associated with a higher willingness to take risks, while a long term increase is associated with a lower willingness to take risks. Negative news are associated with lower willingness to take risks irrespective of the time frame. We further find that negative (positive) news

² While it is unlikely that individual risk attitudes have an impact on the national news, we can not completely exclude that a third, independent event (such as a sporting event) leads to an aggregate change of the risk attitudes in the population, which influences the real economy and by that also the news (see (Dohmen et al., 2006) for such an example).

³ Generally, it is found that the media has an influence on several social and economic outcomes (for an overview see DellaVigna and La Ferrara, 2015).

Download English Version:

<https://daneshyari.com/en/article/7242538>

Download Persian Version:

<https://daneshyari.com/article/7242538>

[Daneshyari.com](https://daneshyari.com)