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Eric Cardella, Ivalina Kalcheva, and Danjue Shang*

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Abstract

We investigate the extent to which a country's degree of genetic variation contributes to the observed variation in financial market activity across countries. We postulate that genetic variation can affect financial markets through its impact on aggregate investment behavior, innovation in the financial sector, and productivity. Our country-level, cross-sectional analysis reveals a significant hump-shaped relation between a country's predicted genetic variation and the size of its financial markets. This result is consistent with the conjecture that at relatively intermediate degrees of genetic variation, the associated intermediate levels of trust and risk-taking within the country result in the largest investment flows into public financial markets. Our

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