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IN THE MOOD FOR RISK? AN EXPERIMENT ON MOOD AND RISK PREFERENCES (SUMMARY)

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SUMMARY

IN THE MOOD FOR RISK?
AN EXPERIMENT ON MOOD AND RISK PREFERENCES

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Principal Topic
We test Baron’s (2008) hypothesis that affect can influence entrepreneurial behavior via its influence on risk preferences in an economic experiment. To the best of our knowledge, this is the first experiment that uses an incentive-compatible mechanism to test the influence of moods on risk preferences. Since entrepreneurs often have to make risky decisions with large consequences, our experiment also includes a treatment with very high financial stakes.

Method

We conducted an economic experiment with 322 students using the incentive-compatible Holt and Laury (2002) method to measure risk preferences. All the participants received a show-up fee of 4 EUR. In the treatments with no financial stakes, they received a fixed payoff of 9 EUR. The overall maximum amount that the participants could win in the low stakes treatment was 14.45 EUR and 1.445 EUR in the high stakes treatment.

We used three film clips inducing participants with either joyful, fearful, and sad moods (Hewig et al. 2005, Westermann et al. 1996). Participants’ moods were measured directly before and after the mood inductions and their general affect at the end of the experiment using the Positive And Negative Affect Schedule (PANAS-X: Watson & Clark, 1994). In addition we had a control group who did not receive a mood induction and for which mood was measured once at the beginning and at the end of the experiment.

Results and Implications

Our results show that moods have hardly any influence on risk preferences when the financial stakes are fixed. Findings in the low stakes treatments support the affect infusion model (Forgas 1995), demonstrating that a joyful mood leads to higher risk-seeking preferences, whereas fearful and sad moods lead to higher risk-averse preferences. In the high stakes treatments, however, joyful, fearful, and sad moods all lead to more risk-seeking, compared to the control group, which shows very strong risk aversion. Moreover, our results in the incentive-compatible treatments show that individuals who perform financially well are less influenced by their moods than individuals who perform financially badly.

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