

Risk-Taking on Behalf of Others

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Abstract: In the recent financial downturn part of the blame was accredited to excessive risk-taking by institutional investors making risky decisions on behalf of others. From a theoretical stand point it is clear that if an agent's risk-preferences differ from those of the principal then inefficiencies may arise. In particular, the selfish agent fails to internalize the principal's preferences when making their choices. On the other hand, recent theoretical and experimental papers put forward that people have preferences for others well-being (i.e., other-regarding preferences) which suggests that the problem of excessive risk-taking is exaggerated. Given the extensive experimental literature on individual risk-taking it is surprising that the issue of risk-taking on behalf of others has not received much attention. This paper reports experimental evidence from a large-scale internet experiment with a highly heterogeneous sample from the Danish population.