

## **Preferences and Exposure to Policy Shocks: Evidence from a Natural Experiment in Palestine**

### Abstract

We use field experiments in the Palestinian Territories to analyse the impact of exposure to shocks on preferences. We exploit the construction of the separation wall between the State of Israel and the West Bank as an exogenous shock to test for changes in the risk, time and ambiguity preferences. We find that this event has an effect on preferences: communities isolated by the wall are more risk-tolerant, ambiguity-averse and, in some cases, impatient than those in areas without the wall. Our results suggest that a channel of preference change is emotional responses to the wall, particularly anger and sadness, in line with the psychological theories of Reactance and Appraisal-Tendency framework. The study illustrates the potential for preference change in response to shocks of a political and policy nature.