Social context influences decision-makers' willingness to take risks

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Dr. Stephan Mueller. Credit: Gesche Quent/University of Göttingen

Do differences in performance have an impact on the appetite for risk-taking in decision-makers? Economists at the University of Göttingen have addressed this question. The result of their study is that people's willingness to take risks increases as soon as they get a lower return than other people with whom they compare themselves. At the same time, decision-makers take lower risks if they get a higher return than their peers. The study was published in the journal *Games and Economic Behavior*.

Dr. Stephan Müller and Professor Holger Rau from the Faculty of Business and Economics at the University of Göttingen investigated the risk preferences of 236 participants in computer laboratory experiments. Risk preferences play an important role in financial and product markets, as they determine the investment behaviour and the associated profits and losses of investors. These actions result in those concerned making different profits on their investments. For example, investors in financial markets achieve higher long-term returns if they take on higher investment risks. Therefore, pronounced risky investment behaviour usually results in an increase in the gap between the levels of investors' income.

"If, for example, a fund manager generates higher profits than his colleague, this can lead to a significant increase in his colleague's willingness to take risks in order to close the existing gap," says Rau. Conversely, decision-makers are less keen on taking risks if they find that their social peer has a lower income. "Interestingly, the results of this change in risk-taking behaviour depend on how strong the test subjects' aversion to inequality is," Müller adds. The results of this study provide valuable insights into the design of employment contracts in order to control the risk-taking behaviour of employees through organisational structures and information policies. Furthermore, the study provides insights into insurance strategies for social projects in order to minimise the existing financial risk for sponsors.

More information: Stephan Müller et al, Decisions under uncertainty in social contexts, *Games and Economic Behavior* (2019). [DOI: 10.1016/j.geb.2019.04.006](http://dx.doi.org/10.1016/j.geb.2019.04.006)

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