

Risk-Avers by Nation, by Religion or by Nature?
Some Insights on Determinants of Individual Risk Taking Preferences

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Abstract

This paper analyzes the determinants of individual risk preferences.

As a starting point it summarizes the standard economic decision-making theory and its extensions, considering the factors which explain deviations from simple economic decision-making under risk and uncertainty.

The focal point of the paper – the detection of determinants of the willingness to take risks and their causales – is addressed by a literature review on economic as well as psychological and neurobiological studies of risk taking behaviour. Additionally, new considerations are provided, and possible endogeneity and cause-effect-chains are discussed. As a first result, eleven hypotheses are derived. These hypotheses are empirically tested by descriptive and analytical means based on the data of approximately 22,000 queried persons of the German Socio-Economic Panel.

An innovative method is used to disclose the importance of nationality, focusing on foreign emigrants to Germany. All hypotheses are confirmed. The results are: (1) the willingness to take risks is heterogeneously distributed; (2) risk aversion is a predominant stand; (3) women are more risk averse than men; (4) risk aversion increases with age; (5) taller people are more risk loving than smaller ones; (6) higher educated persons show more willingness to take risks; (7) higher income is positively related to being risk-prone; (8) undenominated are more likely to take risks than religious persons; (9) “conservative” religions are more risk averse than “liberal”; (10) nationality is not a significant determinant of the individual willingness to take risks – it should be rather considered as an amalgam of underlying cultural factors which need to be disentangled; and (11) socio-economic variables can explain only one third of the variance in measured risk taking preparedness.

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