Understanding Excessive Risk Taking Seen in Experiments on Financial Markets

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Risk taking in general, and for financial markets in particular, are well known to be gender dependent. For example in a financial context it has been shown how the level of testosterone predicted the financial return, and cortisol the risk taking, in a group of traders on a London trading floor. Whereas the incentives for risk taking at the individual level is well understood, very little is known about the cause and pathways which lead to aggregate risk taking at the level of the system. Here we show through a series of experiments with different groups of male and female traders how the creation of excessive financial market risk is gender specific. We however found it unpredictable to know whether a given group of traders would, or would not, create excessive collective risk taking. We suggest that the onset of risk happens through random fluctuations in the use of trading strategies and have introduced a fluctuation based framework that enables us to understand general conditions and variables that can lead to collective excessive financial risk taking. We use our general framework to study specific onset of risk taking in those experiments where excessive risk taking was observed.