

MARKETING COLLOQUIA

SPRING 2016

Bart de Langhe

Assistant Professor of Marketing

University of Colorado Boulder, Leeds School of Business

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Where: 741 JMHH

When: 12:00 PM to 1:20 PM

UNDERSTANDING AND FINANCIAL DECISION-MAKING

ABSTRACT: I'll describe two projects that explore how consumers' subjective and objective understanding affect their financial decisions. The first project explores the relation between sense of understanding and evaluations of risk. Consumers tend to use sense of understanding as a proxy for risk, even when the two are uncorrelated objectively. For instance, perceived investment risk is lower when consumers feel they understand what a company does. This can lead to perverse effects on risk judgments and portfolio construction. The second project explores consumers' misunderstanding of the important principle of investment diversification. Almost everyone has faulty statistical intuitions about the benefit of diversification, but the errors people make differ depending on financial literacy. These misunderstandings also transfer to decision-making, leading to suboptimal decisions. Taken together, the projects highlight an understudied issue: the importance of understanding, both subjective and objective, to adaptive decision-making in the financial domain.