

Decision Processes Colloquia

Monday, April 3

Where: **260 JMHH**

When: **12:00 – 1:20 pm**

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The Last Hurrah Effect: End-of-Period Temporal Landmarks Increase Optimism and Financial Risk-Taking

ABSTRACT:

Understanding what drives risk-seeking is fundamental for the study of choice under uncertainty. A widely discussed question is when and why people engage in risk-taking. Prior work has found some evidence for an end-of-period effect where risk-taking increases at the end of a betting session when outcomes are immediately realized. However, are individuals prone to an end-of-period effect more broadly? To test whether socially ubiquitous end-of-period temporal landmarks alter financial risk-taking propensity, we leverage data from more than five million investment decisions made by lenders on Prosper Marketplace, Inc., one of the largest peer-to-peer lending platforms in the United States. We find that lenders make riskier financial choices on Fridays, the last day of the work week, relative to those made earlier in the week. Our results are robust to the inclusion of various supply-side, demand-side, geographic, and individual lender-level fixed effects. Consistent with a broader end-of-period effect, we also observe that lenders increase financial risk-taking on alternative end-of-period temporal landmarks, such as the last day of the month or year and weekdays prior to a long weekend. In our specific setting, end-of-period risk-taking has negative ramifications, producing significantly worse returns relative to investments made on other days. We use follow-up laboratory experiments to narrow in on a potential mechanism underlying our effects. When end-of-period temporal landmarks are salient, people report feeling more optimistic about their financial future, increasing their belief that investment choices will work out positively, and, in turn, increasing the likelihood of making a riskier financial choice.