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INFORMATION AVOIDANCE IN FINANCIAL DECISION MAKING

Abstract:

When making financial decisions, decision-makers should perceive having complete risk information as beneficial. Surprisingly, in some situations decision-makers prefer to know less than more, even when it may result in losing money. Some shareholders do not keep themselves informed about the company they have invested in, and some online customers prefer not to read the terms of service of the online stores they shop at.

The aim of this study was to identify the impact of selected characteristics of financial threats on individuals' decisions to avoid information about the probability that a given threat may occur. To reach this goal, we conducted an incentivized full-factorial 2x2x2 experiment in which subjects (n=395) made financial decisions to minimize the amount of money they could lose. We investigated their behaviour under such threat focusing mainly on their willingness to attain information that can protect them from losing money.

We hypothesized that: (1) the more serious the financial threat, the fewer people avoid risk information; (2) the higher the perceived probability of the financial threat, the more people avoid risk information; (3) the lower the effectiveness of prevention of the threat, the more people avoid risk information.

Additionally, we investigated the role of coping-styles (Miller, 1987) and locus of control (Rotter, 1966) on risk information avoidance in the financial domain. Specifically, we tested the conjectures that: (4) blunters are less likely to attain risk information than monitors; (5) external locus of control leads to more risk information avoidance than internal locus of control.

Furthermore, we controlled for: anticipated emotional response, rational/emotional thinking, risk attitudes, and basic demographics.

To analyse the data we ran a logistic regression model with Huber-White sandwich variance estimator and rejected hypotheses 1-3. However, we found an interesting interaction effect: the effect of threat severity on information avoidance depends on perceived probability of the threat. Specifically, people tend to avoid financial risk information more often when the financial threat is more serious and the perceived probability of the threat is high. In other words, they avoid financial risk information when knowing it would benefit them most.

Finally, our data provides support for hypotheses 4 and 5, and suggests that anticipated emotional response and sex are statistically significant predictors of financial risk information avoidance.

Keywords:

Decision making, behavioural economics, behavioural finance, risk information avoidance

JEL Classification: D81, G02, D03

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