

Investing against Fear:

Changing Cultural Narratives and Polarizing Financial Behaviours

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Abstract

Adopting certain retirement investment strategy is a financial behaviour that can be thought of as exhibiting certain insurance preference against the fear of being exposed to uncertainty in elderly age. Culture Based Development is a research paradigm that suggests that people's preferences are shaped by the cultural context (Tubadji 2013, 2023). Meanwhile, the stream of literature on psychological types has shown that a big part of human preferences is based on the psychological type (Borghans et al. 2008; Fritsch and Storey 2017; Fritsch, Obschonka and Wyrwich 2019). Our study aims to identify how the changing cultural context affects the preference for investment in one's retirement plan, controlling for the psychological type and ethnicity of the individual. To achieve methodologically a clear identification we use data from the Health Retirement Study (HRS) by the University of Michigan, for the years 1992 – 2020. Firstly, we compare the propensity to invest in retirement among people from Hindu background born in the USA and the rest of the USA-born population, controlling for the ethnic heterogeneity and employing a detailed Oaxaca-Blinder decomposition analysis. Thus, we learn how the individuals from Hindu identity differ on cultural basis in their preferences as compared to other ethnicities. We control in the detailed decomposition for the individual psychological type. Secondly, we compare the propensity of the Hindu background born in the USA with the Hindu background arriving as immigrants to the USA. Using both psychological type and economic status controls, we can now study how the higher-risk profile of an immigrant and the changing cultural context of the migrant (swapping India with the USA) seem to associate with the preferences of the individual for investment in their retirement. We use Oaxaca-Blinder decomposition to obtain comparable findings with the first part of our analysis. Next, we employ a novel difference in differences and treatment effects procedure to establish clear causal inference for the impact of the changing cultural narrative on the financial behaviour of the individual. The paper offers the main value added of clarifying the link between local culture and individual psychological propensity.

Keywords: *retirement plan, retirement investment strategy, fear of uncertainty, cultural context, psychological types*

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