

Empirical Household Finance

Online PhD-Level Class

Peer Effects

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Plan For Today

- Some observations on today's topic:

Peer Effects in Household Finance

- Two research projects:
 - **Peer Effects in Product Adoption**
→ Example of large micro-data
 - **Social Connectedness Index**
→ Introduce data on social connectedness

Peer Effects in Household Finance

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- But: Difficult to study empirically
 - ① Measurement
 - ② Identification

Challenges to Studying Peer Effects

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 - Endogenous network + random shock

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 - **Endogenous network + random shock**
 - Identify random shock to peer or network
 - Trace effect of shock through (endogenous) network

Peer Effects: Possible mechanism

- Why do peers affect behavior?
 - Information
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 - Social utility
 - Peers actions directly enter utility function
 - e.g., “Keeping up with the Joneses”, desire for recognition, ...

Peer Effects in Household Finance: Investors

- Retail investors
 - Local peers or work colleagues
 - International data (e.g., Scandinavian data)
 - Document correlated investment decisions
- More recently: Shift towards understanding mechanism
 - Florian Ederer on *“Understanding Mechanisms Underlying Peer Effects: Evidence from a Field Experiment on Financial Decisions”*
- Professional investors
 - Large fraction of aggregate capital
 - Importance for asset markets

Peer Effects in Household Finance: Housing

- Research and policy interest following 2008 crisis
- Housing: little experience, important decision
- High quality micro data on many housing decisions in US
- Many choices: home purchase, mortgage, refinancing,
- Neighbors as natural peer group

→ Later today

- Johannes Stroebel on *“The Economic Effects of Social Networks: Evidence from the Housing Market”*
- Jordan Nickerson on *“Teachers Teaching Teachers: The Role of Workplace Peer Effects on Financial Decisions”*

Peer Effects in Household Finance: Saving and Borrowing

- Retirement savings
 - Work colleagues as natural peers
 - Data from employer sponsored retirement plans
- Borrowing and default
 - Closely related to peer effects in consumption choices
 - Wide variety of datasets and peer networks

→ Later today

- Ankit Kalda on *“Peer Financial Distress and Individual Leverage”*
- Emily Breza on *“Social Networks, Reputation, and Commitment: Evidence from a Savings Monitors Field Experiment”*

Peer Effects in Household Finance: Research

- Simply documenting existence of peer effects no longer enough
- Directions to go beyond:
 - Mechanism
 - Heterogeneity: Which peers matter when? Why?
 - Implications: Why do peer effects matter?
 - Aggregate outcomes
 - Regulation
 - Functioning of markets