

# Psychological and health aspects in individual economic and financial decisions – consequences and policy implications

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## Summary

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*The overall goal of the project is to find new behavioral insights that explain financial and economic decisions of individuals. The focus of the research is to link psychological and/or health related factors of individuals to financial and economic outcomes and the heterogeneity in the outcomes. The new insights provide valuable policy suggestions to avoid or alleviate unsustainable financial and economic choices in the era of uncertainty individuals have been facing due to the COVID-19 pandemics and other changes in the environment.*

Research field:	Economics and finance
Supervisors:	Prof. Dr. Aaro Hazak Dr. Merike Kukk
Availability:	This position is available.
Offered by:	School of Business and Governance Department of Economics and Finance
Application deadline:	Applications are accepted between June 01, 2022 00:00 and June 30, 2022 23:59 (Europe/Zurich)

## Description

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As financial and economic decisions of households and individuals affect the economy through many mechanisms, it is important to understand better the nature of individual choices behind consumption, borrowing and saving decisions. Literature has found many behavioural biases in the financial and economic behavior but there are still numerous unanswered questions about the choices of households and individuals in different macro and micro level environments. Households have faced many types of uncertainties recently that are related to the COVID-19 pandemic, war in Ukraine, price pressures relating to the transition to green economy, to name the largest ones. Uncertainties are accompanied by higher mental stress that affects among other individuals' financial and economic decision-making process. Moreover, individual heterogeneity in mental health is linked to their economic and financial decisions and outcomes. Not only the macro level economy but also individual welfare depends on the sustainability of financial and economic choices. Economic decisions of individuals with mental health issues may be suboptimal, bringing potentially along deeper socio-economic inequality and suboptimal social inclusion of individuals (see e.g. De Quidt & Haushofer, 2018; Smith & Mazure, 2021). Earlier empirical studies have shown links of mental health with risk taking (e.g. Cobb-Clark, Dahmann, & Kettlewell, 2021), consumption decisions (e.g. Bayer et al., 2019), and wealth (Smith & Mazure, 2021).

The research topic is related to the European Commission Horizon2020 project "Individual behaviour and Economic performance: methodological challenges and institutional context" (IBEP), led by TalTech (project leader Aaro Hazak, Work Package 3 leader Merike Kukk) in collaboration with internationally leading counterparts Aalto University, University of Helsinki and Tel Aviv University. Secondly, European Economic Area (EEA) Financial Mechanism 2014-2021 Baltic Research Programme [project S-BMT-21-8 (LT08-2-LMT-K-01-073)] project ETAG21003 in collaboration with BI Norwegian Business School, Vilnius University, Baltic International Centre for Economic Policy Studies (BICEPS), University of Tartu and The Hong Kong University of Science and Technology.

To understand the heterogeneity of the outcomes of the financial and economic decisions across different socio-economic groups, a comprehensive set of micro data is needed. The collection of the data has been started in the framework of the IBEP project. Additionally to households surveys implemented by Statistical offices, register data and other transactional datasets can be potentially used. The project entails merging various individual level data to implement interdisciplinary research that links psychological and health aspects to financial and economic outcomes of households or individuals.

The aim of the PhD thesis is to find new insights to explain financial and economic decisions of households or individuals. The insights provide valuable policy suggestions to avoid or alleviate unsustainable financial and economic choices in the era of uncertainty individuals have been facing due to the COVID-19 pandemics and other changes in the environment. For the PhD research new datasets and advanced econometric methods will be used to explore the

link between psychological and health factors and economic outcomes. As the PhD thesis will contain at least three research articles, the PhD student will investigate several aspects within the above topic area, while exact research question for each paper will be formulated after the initial inspection of available datasets and based on the ongoing research and results of the research group.

### **Expectations upon the successful candidate**

Ideally, the well-motivated candidate has a strong grasp of economic theory and policy and is familiar with the main econometric estimators and can apply them using contemporary software for statistical and econometric analysis such as STATA, R, MatLab or others, and has a strong drive to become familiar with the cutting-edge research on causal evaluation.

### **References:**

1. Bayer, Y. M., Shtudiner, Z., Suhorukov, O., & Grisar, N. (2019). Time and risk preferences, and consumption decisions of patients with clinical depression. *Journal of Behavioral and Experimental Economics*, 78, 138-145.
2. Cobb-Clark, D. A., Dahmann, S. C., & Kettlewell, N. (2021). Depression, Risk Preferences and Risk-taking Behavior. *Journal of Human Resources*, 0419-10183R1.
3. De Quidt, J., & Haushofer, J. (2018). Depression through the lens of economics: A research agenda. In: *The economics of poverty traps* (pp. 127-152). University of Chicago Press.
4. Smith, M. V., & Mazure, C. M. (2021). Mental health and wealth: depression, gender, poverty, and parenting. *Annual review of clinical psychology*, 17, 181-205



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