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FIELDS OF RESEARCH

- *Primary:* Household Finance and International Economics.
- *Secondary:* Macroeconomics, Uncertainty and Information in Games.

PROFESSIONAL AFFILIATIONS

- 2019- : CEPR Member of POLECON Research Group
- 2017- : Fellow of the Centre for Financial Security, *University of Wisconsin-Madison (US)*
- 2014- : CPC Research Associate, *University of Southampton (UK)*

SHORT BIO

Hector Calvo-Pardo is a Reader in Economics within the School of Economic, Social and Political Sciences at the University of Southampton. Hector received a PhD in 2005 from EHESS, Paris School of Economics (PSE, France), funded by La Caixa and the Bank of Spain. In 2008, he was awarded a two-year ESRC First Grant Scheme to understand the role of subjective expectations in households' financial decisions. In 2009, he was awarded a NORFACE-ESRC grant to study the effect of international migration on institutions. In 2011, he was appointed associate researcher to the International Network on 'Expectational Coordination', hosted by the College de France, and funded by the Institute for New Economic Thinking (INET) until 2016. His work on how firms enter foreign markets was awarded the Chair Jacquemin award for the 'best paper on Heterogeneous Firms and Trade Policy' at the European Trade Study Group's 2009 annual meeting. His research supervision has been awarded a 2011 Royal Economic Society junior fellowship. He has visited the Economics Department at New York University (USA) in 2006, University College London in 2010 and 2013, and the University of Cambridge in 2012 and 2014. Since 2014, he is an associate researcher of the ESRC funded Centre for Population Change (CPC). Hector serves on the ESRC Peer Review College since 2010 and is a member of the Centre for Financial Stability at the U. of Wisconsin-Madison since May 2017, and of CEPR since August 2019. Hector has published in top field journals in economics such as Journal of International Economics and Economica.

Executive summary of *Informative Social Interactions*

Recent research has shown that individuals are more likely to undertake financial risk when more of the people with whom they interact do so. Is this mindless copying or processing of information from knowledgeable peers? The former can lead to fads, bubbles, and crises, such as the internet bubble or the recent financial crisis. The latter can mitigate crises by communicating financial best practices. This project develops and analyses novel household level data from France to shed light on this question. The authors find that people with a greater perceived share of informed peers tend to form a financial circle and to be influenced by that rather than the remaining of their social circle in forming perceptions about the past, expectations about the future, or their degree of exposure to stockholding risk given that they decide to take the plunge. However, peers influence the decision to become a stockholder directly, through the reduction in perceived stock market risk, as well as through expectations. While the thrust of the findings

points to informative social interactions, there is a trace of mindless imitation in the participation decision, as it is influenced even by perceived participation in the outer social circle.

The research paper of L. Arrondel (PSE, CNRS, Banque de France, AMF), H. Calvo Pardo (University of Southampton and CPC), C. Giannitsarou (U. of Cambridge and CEPR) and M. Haliassos (Goethe U. Frankfurt, IMFS and CEPR) develops and analyses new survey data on a representative sample of French households in 2014 and 2015. Data were gathered with an innovative survey which provided measures of stock market participation and social connectedness, but also elicited beliefs and perceptions of stock market returns using probabilistic elicitation techniques. The researchers distinguished two ways in which social interactions may affect investment decisions: through information exchanged and through imitation of peers, reflecting social norms in preferences and opinions. Imitation of peers in the financial circle, whose influence grows with the share of peers perceived to be informed or participating in the stock market, can be thought of as 'mindful' imitation. Being influenced by the participating share of peers outside the financial circle suggests 'mindless' imitation.

Informative social interactions are consistent with the finding that respondents are more likely to form a circle to discuss financial matters when they perceive a larger share of peers in the social circle as informed about the stock market. Having a financial circle that the respondent perceives either as better informed about the stock market or with greater participation in stocks is associated both with higher perceived past stock market returns and greater expectations about the future. These relationships are not observed for perceived characteristics of the outer social circle, suggesting that they are unlikely to arise from similarity between respondents and peers along unobserved dimensions. This conclusion is further strengthened by placebo analysis, in which perceptions of the financial and social circle are randomly reassigned to respondents within particular age/education groups and are found to be insignificant.

Peers influence stock market participation, beyond their influence on perceptions of the past (and thus on expectations of the future). Respondents who perceive a higher share of their financial circle as being informed about the stock market are more likely to participate in it, for given stock market expectations and regardless of how they perceive their outer social circle. Participation in the outer circle is also significant, however, providing traces of mindless imitation in stock market participation. By contrast, the portfolio share invested in stocks, conditional on participation, is influenced by peers only through expectations. Thus, the case for informative social interactions is cleaner for the degree of exposure to stockholding risk among stock market participants than it is for whether such risk will be undertaken at all.

All in all, these findings suggest that social interactions tend to reduce rather than exacerbate financial literacy limitations, and to affect financial decision making by being informative rather than 'contagious'. *The research paper "Informative Social Interactions", is available from here.*