
REPLICATION NOTES FOR "TRUSTING THE STOCK MARKET"

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Keywords

1 Key results to replicate in the HRS data

1. Significance of trust for **participation and shares invested** should be retained when controlling for risk and ambiguity measures. Risk and ambiguity aversion measures should not be statistically significant. Number of stocks should be decreasing in risk tolerance but increasing in the level of trust.
2. “More loss-averse people should insure more, but...less trusting people insure themselves less” - is there a measure of insurance in the HRS data?
3. Distinguish trust and optimism: is there a measure of optimism in HRS similar to the one from the “Life Orientation Test”
4. See if the trust results are robust for general trust and trust measures more specific to the financial system (“confidence toward the bank as a broker”)
5. Check and see if trust measures are highly correlated with wealth so that we may be able to explain lack of participation even at high levels of wealth (does beliefs do this as well?).

2 Variables needed from HRS (2020)

Participation, shares, generalized trust measure, risk aversion, ambiguity aversion, optimism, more specific trust measures, demographics (race, gender, employment, education)

3 Theoretical results

Guiso et al. introduce a simple, but very insightful model of portfolio choice between a safe and risky asset which introduces a probability of being cheated to model trust. Noting the theoretical insights here is useful because *the empirical results will be a test of the theory and allow of to asses those results.*

4 Statistical model

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