New York University
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Faculty of Arts and Science
Department of Economics
19 West Fourth Street, 6th Floor
New York, NY 10012-1119

DAVID CESARINI
Assistant Professor

Tel.: 212.992.8683
FAX: 212.995.3932
david.cesarini@nyu.edu

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Dear Committee Members,

I am writing to give my strongest support for Joseph Briggs in his NBER Household Finance Working Group small grant application.

The project Joseph is proposing will capitalize on the random assignment of lottery prizes to estimate the causal effect of wealth on portfolio composition. Joseph will also explore possible utility specifications and models that are consistent with the estimated wealth effects.

The research is based on the analysis of three recently collected samples of Swedish lottery players with a combined sample size of more than three million individuals, of which over 8,000 were conditionally randomly assigned more than a year's income, and over 2,000 were conditionally randomly assigned over ten years of annual income. These samples, which I collected in collaboration with Erik Lindqvist (Stockholm School of Economics) and Robert Östling (IIES, Stockholm), satisfy a number of methodological desires that strengthen the inferences we can make from them. Specifically, the samples are virtually free from attrition, and we observe factors – such as the number of tickets owned – upon which wealth is conditionally randomly assigned. Over a billion USD is disbursed to the lottery winners, giving us excellent statistical power to detect heterogeneity in the responses. Finally, because the prizes vary in magnitude, we can also test for non-linear effects of wealth.

With the help of Statistics Sweden, the players were recently matched to population-based administrative records with information about financial assets (gross and net debt, stocks, housing wealth and bonds). Joseph plans to augment this dataset with information about individual securities owned (not just the aggregates currently available). The individual-security data, available in a Swedish register called KURU, have been used in a set of highly influential papers by John Campbell, Paolo Sodini and Laurent Calvet.

Joseph first visited Sweden in December 2013 and spent a week acquainting himself with Swedish register data. Over the course of this spring, Joseph and I have talked regularly about possible projects in the domain of household consumption and savings decisions, topics on which Joseph has previously worked extensively with Andrew Caplin, Matthew Shapiro and others. As an outcome of these discussions, we agreed that primary focus of his work with the lottery data should be to study the relationship between wealth and risk preferences. While this relationship is clearly a first order determinant of household financial decisions, there is surprisingly little credible evidence on how wealth affects risk taking behavior. The proposed project will be the first to study the effect of exogenously assigned wealth on portfolio choice, and has the potential to characterize the wealth/risk preference relationship definitively. We believe this evidence could have a profound impact on theories of household finance.

Erik, Robert, and I consider ourselves extremely fortunate to have attracted someone of Joseph's talents to take the lead on this project. Joseph's background in structural modeling and estimation brings a different skill-set to the table which will permit better understanding of the channels that support the estimated wealth/risk preference relationship. It is critical for the success of this project that Joseph be able to travel to Sweden, because all the data analysis must place via an encrypted connection to Statistics Sweden's server MONA. The analyses on the server are monitored, the login process is secure, and it is forbidden to access the server from outside Sweden (including via VPN-connections).

Amongst my colleagues at NYU, Joseph is widely believed to to be one of the most promising students in his cohort. I share this impression and strongly feel that he merits support. Please do not hesitate to contact me if I can provide any other information that would be helpful: dac12@nyu.edu.

Sincerely,

David Cesarini