Identity and Economic Incentives joint with Eugen Dimant, Lorenz Götte, Michael Kurschilgen, & Maximilian Muller

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Abstract

This paper theoretically and empirically analyzes how identity (one's sense of self) affects consumption or investment decisions. First, we present a model where identity distorts individuals' beliefs about uncertain outcomes and drives preferences by imposing psychic costs on identity-incongruent actions. Then, using field experiments on soccer betting in Kenya and the UK, we experimentally vary investment incentives for future match outcomes where soccer fans are neutral, favor, or disfavor one of the teams playing. We find that soccer fans have overoptimistic (underconfident) beliefs about identity congruent (incongruent) outcomes rather than neutral outcomes. Finally, we estimate the model parameters using respondents' portfolio allocations while accounting for beliefs. We find that beyond identity-distorted beliefs, fans undervalue returns from identity-incongruent outcomes by 10% to 38% relative to neutral outcomes. Consequently, people choose to over-(under-) invest in identity congruent (incongruent) outcomes than in neutral outcomes.