Comments on:
Macroeconomic Experiences and Risk-Taking of Euro Area Households
Ampudia and Ehrmann

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Summary of the findings

Research question:

How do experienced stock returns affect current risk aversion and stock market participation?

- Method similar to Malmendier and Nagel (2011). Estimate a weighting function of experienced returns
- Memory matters: higher experienced returns => lower risk aversion & more stock participation
- Considerable heterogeneity between countries
- Potential explanation for different levels of risk aversion and stock holding between countries (Christelis, Georgarakos, and Haliassos, 2013)

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Critical questions

- Difference with Malmendier and Nagel: identification with age and a crossection of countries ...

  ... however those countries have very different institutions, investment cultures, and stock market experiences: heterogeneity captured with fixed effects?
- How plausible is the 2nd assumption that all households "experience" stock market returns, when *current* stock market participation is between 5% (Portugal) and 22% (Finland)?
- How are European stock markets correlated? e.g. MNEs
- How are European stock market crashes correlated?

Memory and stock market returns

In general: view of memory as a linear proces of decay.

- Problem is that stock market crashes are now viewed as independent, while in (social) memory they are connected and compared (repetition).
- Perhaps a better description is a capital formation type of weighting process with investment and depreciation

Suggestions:

1. use the variance of stock returns as explanatory variable
2. estimate the lambdas for countries separately
3. is there a difference in the weighting function between positive and negative returns?

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Minor remarks & suggestions

1. Use purchasing power parity corrected real returns
2. Cluster standard errors by country
3. (Do the standard errors need correction for the first step estimation of lambda?)
4. ln(income) and square are not significant?

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Thank you!

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