



GLOBAL ECONOMICS AND MANAGEMENT  
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Presents



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### Long-lasting effects of Propaganda on Financial Risk-Taking

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#### Abstract

We argue that emotional coloring of experiences via political propaganda has long-term effects on risk taking. We analyze whether living in an anti-capitalist system reduces individuals' willingness to participate in the stock market even decades later. Utilizing a large comprehensive data set of 300,000 clients of a German discount broker, we find that even today East Germans are less likely to participate at the extensive and intensive margin, are more likely to hold stocks of communist countries, less likely to hold stocks of capitalist institutions and countries. Effects are stronger for investors more subject to emotional priming of the communist regime, for example living "exemplary cities" renamed after communist politicians and cities of Olympic gold medalists. In contrast, effects are weaker in regions where people had a less positive experience, including areas with high levels of religiosity, areas that experienced significant pollution, and areas where people did not have (Western) TV reception. We show that exposure to anti-capitalist propaganda is costly and results in less diversified portfolios, more expensive actively managed fund, and finally, lower risk-adjusted returns. The long-term effects of anti-capitalist propaganda appear to have significant welfare consequences.