Risk Aversion, Prudence, and Precautionary Savings: A Lab-in-the Field Experiment

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Abstract

This study examines the relationship between risk preferences—specifically risk aversion and prudence—and saving behavior among marginalized communities through a lab-in-the-field experiment. Using a simple binary choice task to elicit risk attitudes, we analyze how these preferences influence participation in both formal and informal saving mechanisms. The findings show that risk-averse individuals are less likely to hold Islamic savings accounts, suggesting a preference for liquidity and immediate access to funds. In contrast, prudent individuals are more likely to maintain such accounts, indicating a stronger precautionary motive and willingness to engage with formal financial instruments. The results also highlight the continued relevance of informal saving mechanisms, particularly among risk-averse participants who face barriers to accessing formal financial services. Although the study is limited by its small and predominantly female sample, the evidence contributes to the understanding of how risk preferences shape saving decisions in low-income contexts and offers insights for policies aimed at enhancing financial inclusion among underserved populations.

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