READ ME FILE

This is Read_Me file for "Inference under Stability of Risk Preferences" by L. Barseghyan, F. Molinari, and J. Teitelbaum.

It was written on July 13, 2015. It contains the description of the replication files for the aforementioned paper. All files needed for the replication are contained in this zipped folder, expect for (1) the actual data files and (2) those used to generate Appendix Tables A1, A2 and A3. Note that without the actual data files, the programs will not run.

The data files are stored at Cornell University, at the Cornell Restricted Access Data Center (CRADC), which is a part of the Cornell Institute for Social and Economic Research. In order to gain access to those files, an interested researcher shall contact the authors of the paper. Access to the data files will provided once the agreement included in this folder (data-user-agreement.pdf) is signed and sent to the authors by the researcher.

Appendix Tables A1, A2 and A3 are from Barseghyan, Molinari, O'Donoghue, and Teitelbaum (2013). One can replicate those directly on CRADC, ones she/he has gained access to the data.

THE CONTENTS OF THIS ZIP FILE

MAIN FILES

There are 11 files that start with main_05_27_15…

The first one of these files is main_05_27_15.m. One needs to run this file to replicate the results of main analysis. Line 15 controls whether it is run for r_max = 0.02 (for Figure A3) or r_max = 0.0108 (for the rest of the analysis).

The second file, main_05_27_17_750_instead_of_1000.m, performs a counterfactual exercise which assumes that the amount of loss in the case of a claim being filed is $750 dollars, and hence households stand to lose $750 instead of $1000 if they had chosen $1000 deductible.

The third file, main_05_27_15_average_lambda, replicates some of the main results under the assumption that households use average claim probabilities instead of their own ones.

The forth file, main_05_27_15_crra, replicates some of the main results under the assumption that households' utility function is CRRA.

The fifth file, main_05_27_15_full_h_menu, does not restrict the deductible menu in home insurance to amounts up to $1000 dollars, and hence allows for home deductible choices of $2500 and $5000.

The sixth file, main_05_27_15_half_lambda, replicates some of the main results under the assumption that households use claim probabilities that are 0.5 times their actual ones.

The seventh file, main_05_27_15_heter, replicates some of the main results taking into account unobserved heterogeneity in claim probabilities.

The eighth file, main_05_27_15_ntd, replicates some of the main results under the assumption that households' utility function is NTD.

The ninth and tenth files, main_05_27_15_power and main_05_27_15_power_emp_dist, calculate various "power of the test" statistics reported in the paper (Tables 3 and A4).

The eleventh file, main_05_27_15_two_lambda, replicates some of the main results under the assumption that households use claim probabilities that are 2 times their actual ones.

In addition:

main_Figure_4A_B creates Figure 4 of the paper.

main_cost_of_mistakes computes the cost of "making a mistake", that is the cost of choosing a $200 deductible in collision coverage.

AUXILIARY FILES

The remaining files are auxiliary. None of these files needs to be run independently. Their names are mostly self-explanatory.

load_data loads data for the analysis, except for the case in which the full home deductible menu is used. The data for that case is loaded using load_data_full_h_menu.

kernel_regression, kernel_regression_aux_1 and ksr are needed for kernel regressions.

bootstrap_intervals and solve_for_critical_value are used for creating confidence bands around the estimated omega intervals.

find_vertices is written to speed up calculations under linearity of the probability distortion function.

omega_distance… files are used in constructing the minimum distance estimators.

REPORT FILES

Report_A_05_28_15x creates Figure 1 (called in main_05_27_15), Report_A_05_28_15 creates Figure 2 and Figure A3 (called in main_05_27_15) and most of Table 1.

Report_B_05_28_15 creates Figure 3, and computes rank correlations (Table 5) and column 3 for Table 1.

Report_G_05_28_15 creates the last column of Table 1.

Report_E_05_28_15 creates Table 2.

Report_C_05_28_15 creates Figures 5 and 6, as well as Table 4 and Figure A4.