

# Preferences and Exposure to Shocks: Evidence from a Natural Experiment in Palestine

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## Abstract

We use a series of field experiments in the Palestinian Territories to explore the impact of exposure to shocks on risk, time and ambiguity preferences. We exploit the historical episode of the construction of the separation wall between the State of Israel and the West Bank as an exogenous shock to test changes in fundamental preferences. We find that the wall affects preferences: people in isolated communities are significantly more risk-tolerant and ambiguity-averse than people who never experienced the wall. While we find insignificant differences in discount rates and loss-aversion, our results show patterns of time-varying discount rates and heterogeneity across socio-economic groups. We test alternative mechanisms linking shocks to changes in behaviour. Our evidence suggests that observed differences in risk and ambiguity are not the result of changes in subjective beliefs, learning or emotional reactions, but they are consistent with the hypothesis of a preference shift. This study suggests that large adverse shocks may have long-lasting consequences on individual decision-making with potential effects on savings, investments and consumption patterns.

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