

Extrinsic Incentive of Risk Sharing and Trust Formation:  
Experimental and Survey Evidence from Bangladesh<sup>#</sup>

Masahiro Shoji<sup>\*</sup>

Faculty of Economics, Seijo University

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Abstract

Using data from a unique household survey and an artefactual field experiment conducted in rural Bangladesh, this study tests the impact on trust of the extrinsic incentive to enforce cooperation in the risk sharing arrangement. The incentive is characterized by the patterns of exogenous income shocks in the real world and trustee's risk preference, and trust is elicited experimentally. The incentive can facilitate trust by increasing one's cost to take selfish behavior and opportunities of intensive communication. The empirical result is in line with the hypothesis. This result also suggests why the social proximity fails to predict trust in some of previous studies.

JEL Codes:

Keywords: Social preference, trust, risk sharing, artefactual field experiment

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<sup>\*</sup> Email: shoji@seijo.ac.jp

Address: Faculty of Economics, Seijo University, 6-1-20 Seijo, Setagaya-ku, Tokyo 157-8511, Japan.