

Joint research seminar Money, Finance and Banking (MFB) & CEFIMO

S10-Spring-25-26 / 2026-05-05

The Use of Latent Variables to Measure Individuals' Risk Profile

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Abstract

This study addresses a fundamental measurement challenge in behavioral finance: the absence of a unified analytical framework capable of simultaneously capturing the objective behavioral and subjective perceptual dimensions of individual financial risk profiles. Leveraging the 2023 Flash Eurobarometer 525, a harmonized cross-country dataset of approximately 26,000 observations across the European Union, the study integrates Item Response Theory (IRT), Latent Class Analysis (LCA), Graded Response Models (GRM), and Polychoric Principal Component Analysis to reconstruct latent risk structures from large-scale survey data. The IRT analysis establishes a hierarchical sophistication ladder across seven financial products, while LCA identifies three behaviorally coherent archetypes – Investors (16.7%), Traditionalists (21.2%), and Minimalists (62.1%) – revealing deep structural heterogeneity in European financial participation. A Speculative Leapfrogging effect among Minimalists provides empirical support for risk-seeking behavior under structural exclusion, consistent with Prospect Theory. The categorical rejection of subjective risk unidimensionality, confirmed through GRM diagnostics, antagonistic Polychoric PCA factor loadings, and a statistically significant Wilcoxon shift, establishes that short-term financial fragility and long-term retirement confidence constitute fundamentally distinct psychological dimensions rather than a unified risk trait. Building on these findings, the study introduces a Discrepancy Index, a diagnostic metric quantifying the calibration gap between objective financial positioning and subjective risk perception, with direct implications for financial literacy policy and consumer protection regulation within the EU.

When and where?

- Date: Tuesday, May 5, 2026
- Time: 16:00
- Room: 3M4 (1st floor, main Moxa building)

UPCOMING EVENTS

12.05.2026 *The Intelligent Skewness Factor*
(Dan Gabriel Anghel, ASE & IPE)

19.05.2026 *A Unified Framework for Anomalies based on Daily Returns*
(Adam Zaremba, MBS Business School & Poznan University of Economics and Business & Monash University)

19.05.2026 TBA
(Alexandru Todea, FSEGA UBB)

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