Abstract

Given the existence of religious risk, rational choice theory implies that - in the absence of impediments - risk-averse religious actors will attempt to mitigate the effects of religious risk by constructing diversified religious portfolios and/or by transferring religious risk via acquisition of relevant insurance. The absence of evidence that such portfolio diversification is a feature of monotheistic religions and the unavailability of market opportunities to insure against religious risk is an indication that impediments abound. This paper advances the proposition that social network externalities associated with religious fellowship have the potential to mitigate religious risks faced by religious firms and their adherents. The paper then articulates a theory of firm location in fellowship space in which religious firms’ location reflects desires for mutually beneficial mitigation of religious risk. The theory implies that religious firms’ locations in fellowship space are determined by the quantity and type of religious risks religious firms and their adherents face; by their degree of aversion to these risks; by members perception of the feasibility or infeasibility of mitigating religious risk via diversification and/or the acquisition of contingent claims; and by the opportunity costs of the time members are required to spend on fellowship activities.