Households risk preferences and portfolio allocation: a collective approach

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Abstract

This work investigates the decision-making process of households' portfolio allocation using the English Longitudinal Study of Ageing data. I develop a collective portfolio choice model where households decide about stock market participation and then choose the optimal allocation. The model accounts for household risk tolerance, measured as a weighted sum of the households' members risk preferences. I study the determinants of household portfolio using the Heckman approach to control for selection into participation. The results show that household risk preferences affect portfolio allocation but not stock market participation. Last, comparing the collective and the standard unitary model, I show that the former approach fits significantly better the data.