Household Bargaining and Portfolio Choice

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Abstract

Differences in risk preferences may lead to spouses having different preferences over the allocation of their household portfolio. This paper examines how their problem is resolved using a simple collective model of household portfolio choice. The model predicts that the risk aversion of the spouse with more bargaining power determines household portfolio allocation. The model also predicts that the share of risky assets in the household portfolio increases with wealth. Empirical support for the results is found using data from the Health and Retirement Study (HRS).

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