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Does Risk Tolerance Decrease with Age?

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Abstract

This study examines the effect of age on risk tolerance. The life-cycle investment hypothesis is tested using the 1983-89 panel of the Survey of Consumer Finances. Household wealth is defined as the sum of human capital and net worth. Risk tolerance is measured by the ratio of risky assets to total wealth. Risk tolerance increases with age when other variables are controlled.

JEL Classification: D18, D81, G11

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