Portfolio Choice and Risk Attitudes: A Household Bargaining Approach

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Our model assumes that two members of the household have different preferences toward risk and decide collectively on the portfolio composition of savings. We illustrate that if couples make investment decisions within a cooperative bargaining framework, the choice of investment in risky assets depends on the bargaining power of the more risk tolerant versus the less risk tolerant spouse. One testable hypothesis of our model is that the household invests a larger proportion of its wealth in risky assets when the bargaining power shifts toward the more risk tolerant spouse. Using data from the Health and Retirement Study for the years 1992-2006, we find that couples increase the share of risky assets when the spouse who has more bargaining power is more risk tolerant.

Endnotes

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