

Subjective measures of risk aversion and portfolio choice

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Abstract

The paper investigates risk attitudes among different types of individuals. We use questions on choices between uncertain income streams in a household survey to elicit information about respondents' degree of risk aversion. The methodology is closely related to Barsky et al. (1997) and Arrondel (2000). As Arrondel, we first analyse individual variation in the measured risk aversion parameters and explain them by background characteristics (both objective characteristics and other subjective measures of risk preference). Next we relate the measured risk attitudes to observed portfolio choice of households. We compare our results with those of Barsky et al. (1998) and Arrondel (2000). Our results suggest that the Barsky et al. (1998) measure is a poor predictor of portfolio choice. More straightforward measures appear to have more explanatory power.