Personal Characteristics, Preferences and Consistent Investment Choices

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Abstract

We examine which personal characteristics influence (biased) financial decision making. In our experiment, subjects repeatedly invest into two identical, uncorrelated, risky assets and observe previous outcome realizations. Under standard assumptions, every optimal strategy implies choosing the same investment in each period. A minority of our subjects chooses such a strategy. While consistent and inconsistent subjects have the same risk preferences, inconsistent ones choose on average riskier investments. The probability of consistent choices increases in cognitive ability and economic education, and decreases in the internal locus of control (the belief that life is determined by one’s own decisions). Providing subjects with additional graphical information on the relationship between investments and outcomes has no influence on the share of consistent subjects.

Keywords: Risk Preferences, Investment Decisions, Cognitive Ability, Locus of Control
JEL Classification: D03, G02, C91

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