Risk Preferences of Australian Households: A Panel Study

Stamatios Tsigos* and Kevin Daly

Using household panel data for Australia sourced from HILDA, we explore how household risk preferences in relation to portfolio holdings differ across wealth ranges and in relation to various household sociodemographic characteristics across the nation. Our measure of risk is based on the proportion of variance of the optimal household portfolio rather than the proportion of risky assets in the portfolio. Based on this measure, we estimate the coefficients of relative risk aversion for investors in various wealth ranges. In contrast to most studies, we find evidence of very high risk aversion amongst the majority of households. However, this is heavily concentrated amongst less wealthy households. We apply a first differences model across three survey waves spanning 2002 to 2010, and focus on the aggregate national level. We find that risk tolerance increases significantly with household wealth, the relationship is both statistically and economically significant. Liquidity constraints in the form of rental payments were found to diminish household appetite for risk. However, risk tolerance is positively associated with mortgage payments.

Keywords: risk preference, household finance

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* Corresponding Author: S.Tsigos@uws.edu.au, University of Western Sydney, Campbelltown Campus, Goldsmith Avenue, Building 11, Campbelltown, 2560, New South Wales, Australia.

* Corresponding Author: S.Tsigos@uws.edu.au, University of Western Sydney, Campbelltown Campus, Goldsmith Avenue, Building 11, Campbelltown, 2560, New South Wales, Australia.