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CHILDHOOD DETERMINANTS OF RISK AVERSION: THE LONG SHADOW OF COMPULSORY EDUCATION

ABSTRACT

We study the determinants of individual attitudes toward risk and, in particular, why some individuals exhibit extremely high risk aversion. Using data from the Panel Study of Income Dynamics, we find that policy induced increases in high school graduation rates lead to significantly fewer individuals being highly risk averse in the next generation. Other significant determinants of risk aversion are age, sex, and parents' risk aversion. We verify that risk aversion matters for economic behavior in that it predicts individuals' volatility of income.

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