

Essays in Household Finance

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To Gunilla, Peter and Ulf

Foreword

This volume is the result of a research project carried out at the Department of Finance at the Stockholm School of Economics (SSE).

This volume is submitted as a doctor's thesis at SSE. In keeping with the policies of SSE, the author has been entirely free to conduct and present his research in the manner of his choosing as an expression of his own ideas.

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Stockholm, August 15, 2016

Tomas Thörnquist

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Introduction

This doctoral thesis consists of three independent papers in financial economics. The common thread for these three papers is that I seek to better understand the determinants of the financial decision-making and behavior of individuals. During the writing of this thesis I have aimed to answer questions such as: How do married couples arrive at joint financial decisions? How do individual investors incorporate news into their trading behavior? How is future financial behavior affected by childhood bereavement? The list of papers comprising the thesis is as follows.

Bargaining over Risk: The Impact of Decision Power on Household Portfolios

(joint with Arna Olafsson)

Many households are composed of couples whose decisions are the outcome of a joint decision-making process, yet empirical models of portfolio choice typically treat households as single decision-making units. The present paper investigates the internal financial decision-making process of households in a panel containing the disaggregated wealth of the Swedish population. We show that the distribution of decision power within households influences the weight of spouses' preferences in financial decision making. Increased decision power of female spouses decreases equity market participation and the risky share, reduces the riskiness of the portfolio, and reduces idiosyncratic risk.

Sophistication, News and Individual Investor Trading

This paper investigates the effect of individual investor sophistication on the way they respond to new information in their stock trading decisions. I employ a 9-year panel of all the Swedish households together with a new dataset containing all the articles published in all the Swedish periodicals during the same time period. I show that while sophisticated investors trade more frequently unconditionally, unsophisticated investors trade more frequently in response to news. I provide evidence suggesting that sophisticated in-

vestors are more likely to use complex information that requires higher levels of reading comprehension, which leads to better stock-picking performance. Finally, I find that sophistication reduces transaction sizes and that while, on average, males trade more often and have larger individual transactions, sophistication reduces that difference between genders.

The Implications of Childhood Bereavement on Adulthood Decisions

Using a comprehensive, detailed, and high-quality data set covering the entire Swedish population over 25 years I identify children that suffered bereavement in their forming years and were left to grow up with only one parent. I follow these children and observe the portfolios, educational attainments and labor market outcomes of these individuals when they have reached adulthood. I find that individuals that grew up with a widowed mother exhibit statistically significant and economically meaningfully higher levels of risk aversion compared to individuals that grew up with a widowed father. Furthermore I show that losing a father is more detrimental to human capital accumulation and that this effect is particularly strong for boys.