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Risk Preferences of Australian Households: A Panel Study

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Using household panel data for Australia, sourced from HILDA, we test whether the hypothesis of constant relative risk aversion in wealth, controlling for various sociodemographic variables. 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 apply a first differences model across three survey waves spanning 2002 to 2010. We find strong evidence that Australian households exhibit decreasing relative risk aversion in wealth rejecting the constant relative risk aversion hypothesis.This finding is robust in the presence of various sociodemographic variables, including education levels and liquidity constraints.

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