Essays on Saving and Portfolio Choices  
Mateo Velásquez-Giraldo

This dissertation studies heterogeneity in saving and portfolio decisions. The first paper shows that survey expectations can reduce long-standing difficulties in modeling households’ savings and portfolios. The second paper studies the link between wealth and an index of genetic endowments. The third paper studies asset prices in an economy in which agents learn from their experiences and disagree about the future.

1 Life-Cycle Portfolio Choices and Heterogeneous Stock Market Expectations (JMP)

Survey measurements of households' expectations about U.S. equity returns show substantial heterogeneity and large departures from the historical distribution of actual returns. The average household perceives a lower probability of positive returns and a greater probability of extreme returns than history has exhibited. I build a life-cycle model of saving and portfolio choices that incorporates beliefs estimated to match these survey measurements of expectations, which enables the model to greatly reduce a tension in the literature in which models that have aimed to match risky portfolio investment choices by age have required much higher estimates of the coefficient of relative risk aversion than models that have aimed to match wealth age-profiles. The tension is reduced because beliefs that are more pessimistic than the historical experience reduce people’s willingness to invest in stocks.

2 Genetic Endowments, Income Dynamics, and Wealth Accumulation Over the Life-Cycle  
With Daniel Barth, Nicholas Papageorge, and Kevin Thom.

We study the relationship between wealth and genetic endowments previously linked with education through the lens of a life-cycle model. We show that these genetic factors increase wealth through their association with both earned income and the rate of return on invested wealth. Counterfactual exercises predict how social security reforms would modify these relationships, showing that some policies may simultaneously flatten gene-wealth gradients while increasing gene-welfare inequality.

3 Fading Memory, Disagreement, and Asset Price Dynamics  
With Christopher Carroll. In progress.

We study asset prices and trade in an economy where agents form expectations learning from their experience. Agents differ in how they weigh their past when forming their expectations and this generates disagreement. The model reproduces asset price features such as time-series predictability, and we link the dynamics of disagreement with bubble-episodes: periods of increased trade volume and rapid price changes.