

Marital Dynamics and Portfolio Choice*

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Abstract

Micro-evidence indicates that there is a tight link between portfolio, consumption, and marital decisions. We quantitatively explain these empirical observations in a dynamic life-cycle model of single and married households with limited commitment. In our model, agents' outside options will dictate the equilibrium transitions in and out of marriage, which are associated with large shifts in portfolio composition. Within marriage, fluctuations in the agents' outside options will endogenously generate time-varying risk aversion at the household-level which is reflected by significant changes in the household portfolio. In short, the results of our paper suggest that marital frictions are an important economic channel for understanding household portfolio choice decisions.

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