Health and Risk Preferences

Evelyn Morris

Most economic analyses assume that risk aversion is constant over the lifecycle, though an emerging body of empirical literature has provided contradictory evidence. This paper contributes to the literature by developing a theoretical model of the relationship between health and risk preferences and evaluating the model with an improved measure of risk preferences and an instrumental variables model. I find that health has an inverse relationship with risk aversion, but the effect of a health shock is sensitive to risk preference measurement, which explains the range of findings in the literature.