

The Effects of Numeracy, Overconfidence and Risk Aversion on Portfolio Choice of the Aged and Their Implications on Capital Income Tax Policy in Japan

Shigeki Kunieda¹²

Chuo University

【Abstract】

Using a new comprehensive internet survey of aged male and female respondents in Japan, we consider the relationship of numeracy, risk aversion and risk asset investment. Numeracy decreases with age over 60 years old. Numeracy affects absolute risk aversion. Individuals with higher numeracy and higher education tend to have more risk assets in their household portfolio. Individuals with more risk aversion tend to have no or less risk assets in their portfolio. Interestingly, overconfidence has significant negative effects on risk aversion and positive effects on risk investment. Since numeracy decreases with ages over 60 years old, it is not desirable to encourage risk asset investment of the aged by preferred tax treatment in Japan.

¹ Correspondence: Shigeki Kunieda, Chuo University, Hachioji-City, Tokyo, JAPAN
skunieda@tamacc.chuo-u.ac.jp

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