

THE UNIVERSITY



OF HONG KONG

Department of Mathematics

Numerical Mathematics and Applied Analysis Group Seminar (NMAA)

Optimal Division of Effort between Working and Learning Information about the Financial Market

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Abstract

This paper studies the investor's optimal lifetime working and financial-market investing effort-used strategy in a discrete-time consumption and investment model with wage incomes. The financial market contains a risk-free asset and a risky asset whose excess return (compared to risk-free asset) is not known. An investor is endowed with a fixed effort every period which can be used either to work harder to earn higher current and future wages, or to learn a more precise signal of the risky asset's excess return. The results show that the investor's optimal lifetime working effort strategy is hump-shaped: he works harder in the early part of his career life, but exerts more effort on learning information about the financial market later on; and the optimal risky asset investment has a peak near retirement.

All are welcome
