Optimal Consumption and Portfolio Selection with a Self-Financing Constraint

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Abstract
In this paper we propose a model which reconciles contradictory views on risk-attitude of entrepreneurs. Identifying an entrepreneurs as those who have discovered positive net present projects but face constraints to finance the projects, we are able to show that entrepreneurs exhibit often risk-loving behavior even though they are inherently risk-averse. By investigating a continuous-time version of the model we also show that even though the entrepreneurs bear diversifiable risk in their private investment projects their investment in risky financial assets (e.g. stocks) is quite large. This gives an explanation to a famous puzzle regarding the investment behavior of the rich (Carroll 2002).

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All are Welcome!