

Accepted Manuscript

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Camelia M. Kuhnen, Andrei C. Miu

PII: S0304-405X(17)30038-7
DOI: [10.1016/j.jfineco.2017.03.002](https://doi.org/10.1016/j.jfineco.2017.03.002)
Reference: FINEC 2745

To appear in: *Journal of Financial Economics*

Received date: 16 November 2015
Revised date: 7 June 2016
Accepted date: 14 June 2016

Please cite this article as: Camelia M. Kuhnen, Andrei C. Miu, Socioeconomic Status and Learning from Financial Information, *Journal of Financial Economics* (2017), doi: [10.1016/j.jfineco.2017.03.002](https://doi.org/10.1016/j.jfineco.2017.03.002)

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Socioeconomic Status and Learning from Financial Information

Camelia M. Kuhnen*

Andrei C. Miu†

Abstract

The majority of lower socioeconomic status (SES) households in the U.S. and Europe do not have stock investments, which is detrimental to wealth accumulation. Here, we examine one explanation for this puzzling fact, namely, that economic adversity may influence how people learn from financial information. Using experimental and survey data from the U.S. and Romania, we find that lower SES individuals form more pessimistic beliefs about the distribution of stock returns and are less likely to invest in stocks when these investments are likely to have good outcomes. SES-related differences in pessimism may help explain variation in investments across households.

JEL Classification: D03, D14, D83, D84, G02, G11.

Keywords: Socioeconomic status, learning, beliefs, household finance, stock market participation.

*University of North Carolina, Kenan-Flagler Business School & NBER, Finance Area, 300 Kenan Center Drive, MC #4407, Chapel Hill, NC 27599, USA. E-mail: camelia_kuhnen@kenan-flagler.unc.edu. Phone: 919-962-3284, Fax: 919-962-2068. (Corresponding author)

†Babes-Bolyai University, Department of Psychology, Republicii St. #37, Cluj-Napoca 400015, Romania. E-mail: andreimiu@psychology.ro.

‡We thank Peter Bossaerts, Emir Kamenica, Stephan Siegel, Ken Singleton, seminar participants at Dartmouth College, Duke University, New York University, the University of North Carolina, Yale University, and participants at the 2014 meeting of the Society for Neuroeconomics, 2015 American Economics Association meeting, and 2016 NBER Behavioral Finance meeting for helpful comments and discussion. Andreea Beciu, Claire Murray, Luke Murray and Ryan Trocinsky provided excellent research assistance. All remaining errors are ours.

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