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Locus of Control and Savings

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Abstract

This paper analyzes the relationship between individuals' locus of control and their savings behavior, i.e. wealth accumulation, savings rates, and portfolio choices. Locus of control is a psychological concept that captures individuals' beliefs about the causal relationship between their own behavior and life events. We find that households with an internal reference person (a main respondent who believes that he/she can generally control relevant aspects of life) save more in terms of levels and, in some cases, as a percentage of their permanent incomes. Although the locus-of-control gap in savings rates is largest among rich households, the gap in wealth accumulation is particularly large for poor households. Finally, our findings indicate that households with an internal reference person are in a better position to save in forms that are harder to access (such as pension wealth) than otherwise similar households with an external reference person.

JEL-Classification: G02, G11, I31, R21

Keywords: Non-Cognitive Skills; Locus of Control; Wealth Accumulation; Asset Portfolios; Savings

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