

Labor Market Experiences and Portfolio Choice: Evidence from the Finnish Great Depression^{*}

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Abstract

Labor market experiences are a natural candidate for explaining portfolio heterogeneity. However, identifying their impact is challenging, because unobservables can influence the careers people choose and the circumstances they experience. We use plausibly exogenous variation in labor market conditions during the Finnish Great Depression in the early 1990s to trace the long-run impact of labor market experiences on portfolio choice. The results suggest that workers who have experienced adverse labor market conditions are significantly less likely to invest in risky assets. The decrease in risky investment is robust to controls for parental variables, family fixed effects, and cognitive ability, and cannot fully be explained by wealth effects or asset market experiences. These effects span generations: individuals whose parents have experienced adverse labor market conditions invest significantly less in risky assets.

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